



Islamic Temporary Economic Refinance Facility (ITERF)

Table of Contents

1. Scope and Eligibility:	2
2. Expected Return on Financing Under the Scheme:	2
3. Profit/Loss Allocation and Distribution:.....	2
4. Period of Investment and Payments:	3
5. Sanctioning and Disbursement of Finance:	3
6. Disbursement of Funds from SBP to PIBI under Mudarabah:	4
7. Investments being Part of the General Pool of Assets of PIBI:.....	4
8. Disbursement of Funds from PIBI to Customers:	4
9. Disclosure in Annual Audited Accounts:	4
10. Risk Assessment:.....	5
11. Other Terms and Conditions:.....	5
12. Penalties:.....	6



Islamic Temporary Economic Refinance Facility (ITERF)

The Islamic Temporary Economic Refinance Facility (ITERF) is being offered to Islamic Banking Institutions (IBIs). Under this scheme State Bank of Pakistan (SBP) shall make Mudarabah Investment in Islamic Banking Institutions (IBIs) participating in the scheme under Section 17 (6B) of the SBP Act, 1956 (the "SBP Act"). SBP will act 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 of depositors, 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, and therefore shall not be limited to the assets financed under the Scheme.

1. Scope and Eligibility:

- i) Under this facility, Participating Islamic Banking Institutions (PIBIs) will provide long term local currency finance for imported and locally manufactured new plant and machinery to be used for setting-up of new projects in all sectors across the board except power sector.
- ii) Maximum financing limit for a single project/production unit will be Rs 5 billion
- iii) The Facility will expire on March 31, 2021. All LCs/ILCs established after announcement of ITERF till expiry of the facility i.e. March 31, 2021 shall be eligible for financing.

2. Expected Return on Financing Under the Scheme:

- i) 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.
- ii) The expected rate of return on financing once fixed shall remain locked-in for the entire duration of the financing, provided that the customers continue to pay all scheduled amounts at the respective due dates. In case the customer(s) fails to make payment of the amount of installment as per the original payment schedule, provisions of the late payments as stipulated in the underlying financing agreement with the customer shall apply for the overdue period besides taking other actions to recover the same as per its approved policies for recovery in similar cases.
- iii) In cases where the financing amount has not been disbursed in full during the validity of an applicable rate, the undisbursed amount shall attract the new expected rate of return applicable from the date of disbursement by the PIBI.

3. Profit/Loss Allocation and Distribution:

- i) SBP's investment in the General Pool will be assigned profit sharing ratio and weightage keeping in view SBP's expected rate of return as well as PIBI's policy and practice for such type of depositors in the General Pool; the weightage shall be used to calculate profits on the SBP investment.
- ii) At the end of every month, but not later than the 7th working day of the following month, after calculating the actual profit of the General Pool by the PIBI, SBP's share of profit will be appropriated for credit into a separate non-remunerative account held with the PIBI. The profit accumulated in this account shall be transferred to SBP within 7 working days



Islamic Temporary Economic Refinance Facility (ITERF)

from the close of each calendar quarter. No profit shall accrue or be applicable on the amount standing to the credit of the reserve account.

- iii) The determination of profit will be made in line with Section 2 of “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.

4. Period of Investment and Payments:

- i) The maximum period for which the investment under the Facility may be made shall not be more than 10 years including a maximum grace period of 2 years.
- ii) The retirement of financial obligations/redemption under the Facility shall be made by the customers in equal half yearly/quarterly installments depending upon the tenure for 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.
- iii) The Mudarabah Investment made with the PIBIs shall mature on the due date agreed with SBP, and SBP is authorized to deduct outstanding balance of its investment in the General Pool as per “Instructions for Profit & Loss Distribution and Pool Management” for Islamic banking Institutions issued vide IBD circular No. 3 dated November 19, 2012, as amended from time to time.
- iv) **ITERF Reserve Fund – (RF-ITERF):** 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 profit shall be transferred to the RF-ITERF. 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 ‘ITERF Reserve Fund.’
- v) **Loss Sharing:** If at any time the general pool of a PIBI suffers a loss, it shall be borne by all the depositors of the general pool, including SBP, to the extent of their respective ratios of investments in the general pool.
- vi) In case a customer pays the financing amount or its installment, 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 payments received from customer. 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 (02) working days, from the concerned Office of SBP BSC (Bank), failing which 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. However, no penalty shall be charged either from PIBI or its customer in case of payment of financing amount or installment, in part or in full, before due date.

5. Sanctioning and Disbursement of Finance:

- i) Limits will be allocated to individual PIBIs.
- i) Refinance shall be allowed to the PIBI by SBP BSC on submission of documents as may be required by State Bank.



6. Disbursement of Funds from SBP to PIBI under Mudarabah:

- i) After making disbursement(s) on account of the Facility to the customer, the PIBI shall approach SBP BSC for obtaining Mudarabah Investment to the extent of the amount disbursed/financed to the customer under the import LC/Inland LC.
- ii) The SBP BSC shall provide Mudarabah Investment within two (02) working days from the date of receipt of request on submission of duly filled in prescribed documents.

7. Investments being Part of the General Pool of Assets of PIBI:

The funds obtained from SBP shall be part of the PIBI's General Pool and thus shall be subject to the risks and rewards of the pool's assets like other depositors of the pool.

8. Disbursement of Funds from PIBI to Customers:

- i) The facilities shall be allowed against a single or multiple underlying transaction(s), structured on the basis of Islamic modes of financing, approved by the Shari'ah Board of the concerned PIBI. The modes of finance will include all those modes listed in Section E of Annexure I of IBD Circular No.02 of 2008, as amended from time to time; including combination of those Islamic modes of financing (Hybrid arrangements). In case of consortium/syndication, the whole process, starting from the structuring of the transaction till its completion, should be duly approved and monitored by Shari'ah Board/Shari'ah Committee formed for consortium/syndication.
- ii) The PIBIs shall reasonably ensure fulfillment of the pre-disbursement formalities by the customer through due diligence in accordance with their own internal arrangements to avoid mis-utilization of the Facility through over invoicing, etc. while extending financing facilities to the customers. PIBIs shall comply with all relevant regulations issued by SBP from time to time regarding the mode under which the financing has been extended.
- iii) The PIBI shall not take more than 01 month in evaluating an application for financing under the facility from the date of receipt of complete information from the customer. Where the request is declined, the PIBI will explicitly explain the reason for rejecting the application to the prospective customer.
- iv) PIBIs shall at all times remain within the limits assigned to them for disbursements/financing under the Facility. Facilities should not be sanctioned in favor of customers in anticipation of sanction of limits by the SBP.
- v) Disbursements by PIBIs should not be made to the customer directly; instead, payments shall be made to the manufacturers/suppliers or foreign sellers of the machinery through import LC as per payment/delivery schedule agreed between the manufacturer and the PIBI. Likewise, payment for the locally manufactured machinery shall invariably be made through Inland LC as per payment/delivery schedule agreed between the manufacturer and PIBI.
- vi) The PIBI undertakes to advise SBP promptly of any change in the position of any customer provided with finances by the PIBI under the Scheme.

9. Disclosure in Annual Audited Accounts:

- i) The External Auditors of the PIBI shall, during the course of annual audit, verify compliance of the PIBI with the terms and conditions of the Scheme, specially relating to SBP's share in Mudarabah investment, profit calculations and payments made on SBP's



Islamic Temporary Economic Refinance Facility (ITERF)

Mudarabah investment. A 'Certificate of Compliance' shall be issued to the PIBI and a copy thereof should be sent by PIBI to the SBP (concerned Department).

- ii) These facts shall be disclosed separately under appropriate heads, in the annual audited financial statements of the PIBI, the aggregate amount of Mudarabah Investment made by SBP in such PIBI, as may be outstanding and payable by it, on the date of the preparation of its financial statements.

10. Risk Assessment:

- a) Each PIBI shall be required to have robust internal controls to protect depositors'/rab-ul-maals' and PIBI's interest and to fulfill all requirements/conditions of project financing including collateral requirements to mitigate the risk of customers' failure to honor their commitments. The risk assessment policy should cover varying business requirements and provide well-defined methodologies for assessing financial and technical viability of the project and financial fitness of prospective customers.
- b) PIBIs shall undertake necessary due diligence process as per their financing policies before sanctioning the financing facility under the scheme and ensure compliance with all applicable Prudential Regulations and SBP instructions. Further, in case of imported machinery, PIBIs shall obtain satisfactory credit reports on suppliers & manufacturers of Plant and Machinery etc. as required under Chapter XIII of Foreign Exchange Manual (Eighth Edition 2002). Furthermore, the sanction/approval of the financing shall be linked to the risk profile of the potential customers as per PIBI's risk measurement/assessment policies.
- c) Sponsor(s) of project 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 sponsor(s) only for the purpose of setting up of the project/payment to the supplier etc, representing sponsor's equity share in the project. 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. The PIBI shall place a certificate on record in this regard in the relevant credit file for subsequent inspection by SBP.
- d) PIBIs may also consider the financing requests of new projects. PIBIs shall ensure that working capital facilities for the new projects are adequately secured/agreed to, preferably by the financing PIBI or one of the members of the consortium, prior to the approval of financing under the Facility, so that projects do not suffer due to lack of working capital facilities in future.

11. Other Terms and Conditions:

- i) The cost of takaful/insurance, transit takaful/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.
- ii) In case of consortium financing, the payment to the commercial importers or authorized dealers of foreign manufacturers in Pakistan, and/or authorized suppliers in case of locally manufactured machinery and plant shall be made by the leader of the consortium, who shall, be under obligation to certify the share of each member PIBI and the amount disbursed by it, to enable the consortium members to avail mudarabah investment from SBP to the extent of their share subsequent to the actual payment made by the consortium leader. The consortium members may like to make arrangements for sharing of import LC /Inland LC commission on the basis of their share in financing, at the time of finalization of the consortium agreement. The service charges shall, however, be charged on the basis of rates published by the LC/Inland LC opening bank in its schedule of charges.



Islamic Temporary Economic Refinance Facility (ITERF)

- The LC/Inland LC shall normally be opened by the leader of the consortium if not otherwise agreed mutually by the consortium.
- iii) PIBIs shall not take more than one month in evaluating an application for financing under the Facility from the date of receipt of complete information from the customer. Where the request is declined, the PIBI will explicitly apprise the prospective customer of the reasons for rejecting the application.
 - iv) Financing under the facility shall be available against LCs in case of imported and ILCs in case of locally manufactured plant & machinery.
 - v) Financing can be provided either through a single PIBI or a consortium of PIBIs.
 - vi) Second-hand machinery shall not be eligible under the facility.
 - vii) Financing under the Facility shall be checked/verified by our Banking Inspection Department (BID) during inspection of the PIBI to ensure that the same have been allowed as per the terms and conditions of the Facility.
 - viii) Financing shall not be available for the purpose of acquisition of land, construction of building etc.
 - ix) Financing under the facility shall be available to the extent of the C & F value of the imported new plant and machinery and / or ex-factory/showroom price of the new locally manufactured machinery to be purchased by the eligible customers.
 - x) Disbursements by PIBIs should not be made to the customers directly; instead payments shall be made to the manufacturers / suppliers of the plant & machinery.

12. Penalties:

- i) 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 irregularities (such as over invoicing, import of second hand machinery, ineligible sectors etc.) on the part of the financing PIBI or the customer, State Bank reserves the right to redeem the amount of Mudarabah Investment made with the PIBI alongwith fine at the prescribed rate and cost of such verification. The PIBIs are expected to fulfill the conditions prescribed by SBP under the facility and shall have responsibility to secure their interest and the interest of depositors/ investors. However, in no case, fine imposed on PIBI due to its negligence shall be passed on to the customer. In case, they pass on the fine so recovered to the customer, the PIBI shall be under obligation to justify the same and would not pass it on to the customer merely on the strength of the action of State Bank of Pakistan.
- ii) 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
- iii) In case, a customer will make early repayment(s) of the amount of finance/installment(s) and PFI fails to repay the same to concerned office of SBP-BSC within three working days, late adjustment fine will be charged from the concerned PFI at the rate of Paisa 70 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.
- iv) The delay in payment by the customer would trigger the collection of charity amount from the customer as per the undertaking given by the customer. 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. Similarly, in case of delay, the PIBI shall also have 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



Islamic Temporary Economic Refinance Facility (ITERF)

take additional amount in cases of delays and defaults as rent on un-purchased share in underlying asset. The same shall be approved by Shari'ah Board of PIBI.
