

Rules for

The Line of Credit Fund

Under Financial Inclusion & Infrastructure Project

TABLE OF CONTENTS

CONTENTS	PAGE
PREAMBLE	2
1- THE LINE OF CREDIT	3
1.1 Introduction	3
1.2 Objective	3
1.3 Scope	3
1.4 Capital Structure	3
1.5 Duration	3
1.6 Management of the Facility	3
2- OPERATIONS OF THE FUND	4
2.1 Eligibility Criteria	4
2.2 Allocation of Limits	4
2.3 Target Market & Eligibility of Borrowers	4
2.4 Pricing & Recovery	5
3- UTILIZATION & MONITORING	5
3.1 Proper Utilization of the Fund	5
3.2 Monitoring & Reporting of the Fund	5
3.3 Contact Details	5
INTERPRETATIONS & ABBREVIATIONS	7
ANNEXURES	

PREAMBLE

In May 2015, Pakistan launched its National Financial Inclusion Strategy (NFIS) to achieve its vision, that is, ‘individuals and firms can access and use a range of quality payments, savings, credit, and insurance services which meet their needs with dignity and fairness’. SBP strives to expand financial access to at least 50 percent of adults by 2020. To facilitate achievement of NFIS targets, beside various other initiatives, the Government of Pakistan has devised a “Financial Inclusion and Infrastructure Project” (FIIP) in collaboration with the World Bank.

The FIIP aims to contribute to increasing access and usage of digital payments and other financial services for households and businesses in Pakistan. To achieve the target of improving access to financial services, the project has envisaged offering of a Line of Credit (LoC) to Microfinance Banks (MFBs) and to Microfinance Institutions (including Non-Bank Finance Companies (NBFCs)) for on-lending to micro borrowers/ enterprises.

In this regard, the Government of Pakistan has granted USD 75 million, in equivalent Pak Rupees, to SBP to establish the LoC for the microfinance sector to contribute towards meeting the liquidity requirements of the industry.

The LoC will operate through Participating Financial Institutions (PFIs) which will be the implementing partners of SBP to achieve the project objectives in an efficient manner. This document describes the policy and procedures governing the LoC facility applicable to the PFIs and the end borrowers.

1- THE LINE OF CREDIT

1.1 Introduction

With a view to promote access to formal finance, particularly in the microfinance sector, SBP has set up a fund for provision of a Line of Credit (LoC) to Microfinance Banks (MFBs) and to Non-Bank Finance Companies (NBFCs) for onward lending to microfinance borrowers including microenterprises.

1.2 Objective

The objective of the LoC is to ease the liquidity constraint of microfinance sector and provide access to long-term market based funding that will enhance lending to microfinance borrowers including microenterprises and micro housing. The funding will enhance financial inclusion by easing the liquidity constraints of micro lending institutions through a sustainable and market based credit strategy.

1.3 Scope

SBP will provide the LoC to MFBs, and NBMFCs to extend loans to microfinance borrowers including microenterprises and micro-housing as defined by SBP in Prudential Regulations for MFBs. SBP will also provide LoC to other NBFCs (who are in the business of wholesale lending) for onward lending to MFBs and NBMFCs.

The LOC will also focus on:

- i) Development of products and services catering to micro enterprises and micro housing sector;
- ii) Promoting availability of financial services to women micro entrepreneurs; and
- iii) Lending to end borrowers on market-based pricing.

1.4 Capital Structure

The Government of Pakistan has granted USD 75 million in equivalent Pak Rupees through **Public Sector Development Program (PSDP)** under the World Bank funded Financial Inclusion and Infrastructure Project (FIIP).

1.5 Duration

The facility has been established at SBP for a period of twenty-five years to provide a long-term source of funds to the microfinance sector. However, SBP reserves the right to terminate/ amend the facility at any time **in consultation with Finance Division**.

1.6 Management of the Facility

The LoC shall be managed through a Fund Committee chaired by Executive Director, Development Finance Group. The structure of the Committee will be as follows:

Sr. No.	Fund Committee Structure		
	Designation	Status	Department/ Group
1	Executive Director	Chairperson	Development Finance Group (DFG)
2	Group Head	Member	Foreign Exchange & Development Finance (FX&DF), SBP BSC
3	Director	Member	Agricultural Credit & Microfinance Department (AC&MFD)
4	Director	Member	Development Finance Support Department (DFSD), SBP BSC
5	Rep of Finance Division/PD	Member	Finance Division
6	Private Sector Expert	Member	Private Sector/ Market

The Fund Committee will perform following major functions:

- Design and adopt operational modalities (including appraisal framework) of the credit line to ensure smooth implementation of the facility.
- Approval of limits to PFIs as per the criteria mentioned in this document.
- Periodically review the overall performance of the PFIs with respect to objectives of the Fund.
- The Fund Management Committee, keeping in line with the PC-1 of the project, may take steps to encourage off-take of the LoC funds from the sector especially the MFIs.
- Any other function to achieve the objectives of the LoC.

DFSD, SBP BSC shall be responsible for the implementation of the scheme.

2- OPERATIONS OF THE FUND

2.1 Eligibility Criteria

Applications will be invited from all PFIs for allocation of limits under LoC (Annexure-1). The limits will be assigned to PFIs based on the following:

- 1- Compliance of Minimum Capital Requirement (MCR) and Capital Adequacy Requirement (CAR) requirements. (Where applicable)
- 2- Experience of micro lending.
- 3- Statutory/ audit reports of last three years. (Where applicable)
- 4- Ratings assigned by external credit rating agencies. (For MFBs only)
- 5- Consumer protection policies and procedures.
- 6- Financial and social indicators to measure the potential of the PFI for achieving the objectives of the facility.
- 7- “Environmental and Social Management System” meeting the minimum guidelines issued by SBP.
- 8- Commitment to lend 60% of the loans to women borrowers.
- 9- Repayment Capacity.
- 10- Adherence to applicable Corporate Governance standards.

2.2 Allocation of Limits

The limits to PFIs will be allocated for a period up to 5 years. After allocation of limits, the funds will be disbursed immediately. PFIs will ensure utilization of these funds for onward lending to their eligible clients. **Fund Management Committee** shall monitor performance of the PFIs on regular basis *viz-a-viz* their limits and disbursed funds. **Fund Management Committee** reserves the right to enhance, reduce or withdraw the limits based on the performance of the PFIs. For disbursement of the assigned limits, PFIs will have to sign Finance Agreement with **DFSD** along with Demand Promissory Note. (Annexure-2)

NBFCs will also ensure compliance of all the relevant rules and regulations. However, the disbursement of the limits will be subject to submission of acceptable repayment guarantee from any scheduled commercial bank or DFI.

2.3 Target Market & Eligibility of Borrowers

PFIs will use the LoC to provide loans to microfinance borrowers including microenterprises and for micro housing loans. Besides fresh loans (to new and existing customers), enhancements of the existing loans will also be considered eligible for finance. The LoC will maintain gender dimension

with a target of allocating 60 percent of loans to women and women-owned microenterprises, to be achieved at the end of the facility period.

2.4 Pricing & Recovery

The funds under the LoC will be available to PFIs on 6 months Kibor + spread as decided by Fund Management Committee and reviewed from time to time. The pricing will be based on market-based terms as noted above. For onward lending to end-customers, the PFIs should follow market based pricing for end borrowers. The pricing policy of PFIs should be transparent and acceptable to the Fund Management Committee. In terms of recovery from PFIs, the mark-up on utilized/withdrawn funds will be charged on six monthly basis ('Offer' side on mark-up maturity dates). PFIs would be required to pay mark-up upto July 15th and Jan 15th of every year for January to June and July to December, respectively.

However, the principal amount will be recovered in one bullet payment at the maturity of limit. The PFIs will also have an option to pay the principal in four quarterly installments at the maturity. PFIs can partially or fully repay their loans before maturity.

3- UTILIZATION & MONITORING

3.1 Proper Utilization of the Fund

The loan shall not be used for the purpose other than defined in these guidelines. In this regard, the PFI will ensure that strong internal controls are established. All, relevant, Federal and Provincial Acts and SBP/SECP prudential regulations shall be strictly observed while utilizing the facility.

Moreover, the PFI will arrange annual internal audit of the facility and the report will be submitted along with summary to the **Fund Management Committee**. Further, SBP inspection teams will regularly inspect the LoC portfolio of MFBs for its intended usage and compliance of the terms and conditions embodied in this circular as well as the finance agreement to be signed between SBP and the PFI. To ensure appropriate usage and compliance of all the terms and conditions, the NBFCs will have to arrange separate external audit of the LoC portfolio through audit firms on approved list of SBP.

3.2 Monitoring & Reporting of the Fund

PFIs shall keep separate record of all loans extended under the LoC and submit a comprehensive borrower-wise report on quarterly basis (or as and when required) and an E&S report on yearly basis to **Fund Management Committee** defining sectors, geographic distribution and gender coverage (Annexure-3) or any other variable as desired by the Fund Management Committee. Wholesale NBFCs will assume responsibility of submitting above-mentioned reports from respective MFBs and NBMFCs, in addition to consolidated reports of key variables (utilization, targets etc.).

3.3 Contact Details

The contact details at SBP, for the purpose of allocation of limits, are as follows:

1. Director,
Agricultural Credit & Microfinance Department,
State Bank of Pakistan (Main Building),
I.I. Chundrigar Road,
Karachi.
Phone: (+92 21 99221579)
Fax: (+92 21 99221558)

The contact details at SBP BSC for operational matters, i.e. limit disbursement, repayment, and return submission etc., are as follows:

2. Director
Develop Finance Support Department
SBP BSC
I.I. Chundrigar Road,
Karachi.
Phone: (+92 21 99221990)
Fax: (+92 21 99221101)

INTERPRETATIONS AND ABBREVIATIONS

AC&MFD	Agricultural Credit and Microfinance Department
BP&RD	Banking Policy and Regulations Department
CAR	Capital Adequacy Ratio <i>(The ratio is currently 15% subject to review by SBP from time to time)</i>
DFG	Development Finance Group
DFSD	Development Finance Support Department
E&S	Environmental and Social Risk Management
EAD	Economic Affairs Division
ED	Executive Director
FIIP	Financial Inclusion and Infrastructure Project
FIs	Financial Institutions
HoD	Head of Department
Kibor	Karachi Inter-bank Offered Rate
LoC	Line of Credit
MCR	Minimum Capital Requirement <i>(for national level Microfinance banks the requirement is Rs. 1 billion while for provincial level Microfinance banks it is Rs. 500 million)</i>
MFBs	Microfinance Banks licensed by SBP
Micro-Borrower	The definition ¹ in the PRs as issued by SBP and amended from time to time would be used.
Micro-Enterprise	The definition ² in the PRs as issued by SBP and amended from time to time would be used
Micro-Housing Loans	The definitions ³ in the PRs as issued by SBP and amended from time to time would be used by the fund.
MoF	Ministry of Finance
NBFCs	Non-Bank Finance Companies licensed by SECP (particularly who are in the business of wholesale and retail lending to microfinance sector).
NBMFCs	Non-Banking Microfinance Companies licensed by SECP
PD	Project Director
PFI	Participating Financial Institutions, which include MFBs, NBFCs and NBMFCs
PRs	Prudential Regulations for microfinance as issued by SBP
SBP	State Bank of Pakistan
WBP	World Bank Project (The FIIP)

¹ A poor person, with meager means of subsistence, involved in livelihood activity and has an ability to repay debt from an annual income (net of business expenses) up to Rs. 500,000. Maximum loan size in general loan category shall be Rs. 150,000.

² Projects or businesses in trading, manufacturing, services, or agriculture that lead to livelihood improvement and income generation. Moreover, these projects/ businesses are undertaken by micro entrepreneurs who are either self-employed or employ few individuals not exceeding 10 persons excluding seasonal labor. Maximum loan size for this category shall be Rs. 500,000.

³ This shall mean loans to poor persons with annual income (net of business expenses) up to Rs. 600,000. For the purpose of this credit line, maximum loan size for this category shall be Rs. 500,000 without any portfolio restrictions.

FINANCE RELEASE REQUEST FORM

The Chief Manager,
SBP BSC (Bank),
Karachi.

Date:-----

Dear Sir/ Madam,

**Request for Release of Finance Amount
Under Approved Limit of Line of Credit (LoC)-FIIP**

- 1- This is with reference to SBP letter No. ----- dated----- regarding the allocation of limit to----- (the PFI) -----under the LoC. In this regard, we hereby submit our application for disbursement of Rs. ----- (Rupees. ----- only).
- 2- We certify that the details of disbursements under FIIP will be recorded separately and the comprehensive statement in this respect will be submitted on quarterly basis. Also, the records will be made available to SBP team/ External Auditors during on-site inspection/ review.
- 3- We hereby submit/ have already submitted the Finance Agreement and the Demand Promissory Note for the full amount of the limit allowed by SBP under the LoC conveyed through the abovementioned letter (at Para 1 above).
- 4- We hereby commit to abide by the conditions set forth in the abovementioned letter and the Finance Agreement and all the other instructions issued by SBP from time to time with regard to the LoC beside all the other applicable regulations.

Yours faithfully,

FINANCE AGREEMENT

The Chief Manager,
SBP BSC (Bank),
Karachi.
Dear Sir,

This is in consideration of your agreeing to make available to us a Line of Credit (LoC) under Section 17 Subsection (19) & (19A) read with Section 22 of State Bank of Pakistan Act 1956, not exceeding Rs. ----- (Rupees----- only) under State Bank of Pakistan's Line of Credit of Financial Inclusion and Infrastructure Project through AC&MFD letter No.....dated..... against which we.....are delivering to you a Demand Promissory Note made by us in your favor.

2. Now we do hereby agree to the terms and conditions as set out hereunder:

- a. We shall pay/ repay the principal and mark-up amount of finance and any other charges thereon to you in accordance with the agreed schedule of payment. In no case our liability to pay/ repay you the principal amount of finance, or mark up or any other charges thereon shall be dependent upon the recovery from the borrower nor shall our liability be affected by any default on part of the borrower.
- b. As security for the said finance we are delivering herewith a bill of exchange/ demand promissory note of the assigned limit, and also on each occasion of enhancement (if any) we shall deliver to you, bills of exchange/ demand promissory notes duly endorsed in your favor, as are acceptable to you and drawn on and payable in Pakistan.
- c. We undertake that we shall not extend finance in terms of this agreement unless we are satisfied that all parties liable there under are financially sound and credit worthy. Further, the risk of default will be borne by us.
- d. We shall not sanction finances for any purpose other than those prescribed under the LoC rules, this agreement and SBP E&S policy and corresponding procedures. We shall also obtain a declaration from our customer to the effect that the funds or any part thereof should not be utilized except for the purpose spelt out in the LoC rules and E&S guidelines. We shall also make reasonable effort to verify the authenticity and applicability of such declaration by the customer during tenure of the loan.
- e. Further, we shall:
 - I. Use all reasonable efforts to ensure that environmental and social performance of sub-loans is in compliance with the applicable environmental and social requirements, as follows, as specified below, through adequate implementation of the bank's ESMS:
 - (i) applicable environmental and social national and local laws and regulations of Pakistan; and
 - (ii) List of Excluded Activities set forth in Appendix 1 of this Agreement,
 - II. Implement the mitigation and management measures specified in the bank's E&S Action Plan, where such plan is necessary
 - III. Provide an annual E&S reporting to SBP on format communicated by SBP within 90 days after the end of each calendar year.
 - IV. Manage the working conditions of their workforce in accordance with relevant aspects of the World Bank Performance Standard 2 on Labor and Working Conditions as described in E&S policy.
 - V. Within three days of occurrence, PFIs will require their borrowers to notify them, and in turn, will notify SBP of any social, labor, health and safety, security or environmental incident, accident or circumstance having, or which could reasonably be expected to have, any material impact on compliance with applicable E&S requirements.
 - VI. Maintain an easily accessible grievance redress mechanism acceptable to SBP to address feedback and grievances relating to the bank's investment activities.

- f. We agree that notwithstanding anything contained elsewhere in this agreement, the amount of this finance along with markup will become due and payable, if we commit breach of any of the terms and conditions of this agreement.
- g. Mark-up amount shall be payable by us to you on every half-year end i.e. June 30 and December 31, while payment of principal will be made in the last four quarters of the loan period on the abovementioned dates or in bullet form. If any of these dates fall on holiday, the next working day will be considered the due date for payment.
- h. The loan amount along with mark-up can be prepaid at any time before maturity without any charge or penalty.
- i. SBP shall have a right to charge penal interest and penalties in any form in case any of the loan covenants/rules e.g. disbursement of loans for any purpose other than those prescribed under the LoC, mis-reporting etc. are not met by us in any form whatsoever.
- j. SBP shall have access to financial records of the PFIs related to the LOC
- k. For the purpose of markup calculation average daily balance of 360 days would be considered as a year.
- l. You are hereby authorized to collect penal markup and/ or penalties in any form and principal and mark-up from our account/ the account of our guarantor institution with SBP BSC in case we fail to make payments on due dates, without seeking debit authority from us/ the guarantor institution. You shall also be entitled to charge fine on us, at a rate specified by SBP from time to time and also retrospectively, on our failure to make payment whether on account of inadequate balance in our account or otherwise.
- m. You have our authority to debit all of our accounts now held or held hereafter or adjust any money worth which may, howsoever, become due from you or come into your possession or control to the extent of the amount due from us under any such promissory note or in terms of the clauses referred herein before or otherwise under this agreement.
- n. No indulgence or delay in exercising any of your rights hereunder shall be deemed a waiver of any right and no waiver of any of your right hereunder shall be construed as a waiver of any other rights you may have.

Yours faithfully,

Authorized Signatories (including guarantor institution)

Witnesses

DEMAND PROMISSORY NOTE
(TO BE SUBMITTED BY PFI)

Place:

Date:

Amount Rs.

On demand we ___(the PFI)_____ promise to pay the State Bank of Pakistan, Banking Services Corporation _____or order the sum of Rs._____ (Rupees _____only) for value received plus markup @ _____% p.a. plus fines and charges determined by State Bank of Pakistan for financing under the Line of Credit of Financial Inclusion and Infrastructure Project.

(Authorized Signature of the PFI)
Name and Seal

DETAILS OF FINANCING UNDER FIIP LINE OF CREDIT*

Sr. No.	Branch Name & Place	District	Bank/ Institution	Name/s of Borrower/s	CNIC No. 00000-0000000-0	Gender M/T/F@	Business**	Type of Loan/ Loan Product	Particulars of Finance						Status	DPD^
									Date of Sanction	Date of Disbursement	Amount	Mark-up Rate	Collateral #	Date of Settlement		
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
															Regular	
															OAEM	
															Substandard	
															Doubtful	
															Loss	
															Charged-off	
<i>* to be submitted on 10th of the proceeding month for the previous Quarter.</i>																
<i>** for housing loans only "housing" should be mentioned.</i>																
<i># Clean lending should be specified clearly.</i>																
<i>@ M: Male, T: Transgender, F: Female</i>																
<i>^ Exact Status on the last day (30th or 31st) of the reporting quarter.</i>																