Regulations for

The Credit Line Facility (CLF)

Under

Women Inclusive Finance Program (WIFP)

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PREAMBLE

A Credit Line facility, based on the design and implementation of existing SBP managed facilities, specifically intended for women sub-borrowers through loans to (i) microfinance banks (MFBs), (ii) non-bank microfinance companies (NBMFCs), and (iii) Pakistan Microfinance Investment Company (PMIC) as a wholesale lender

The CLF 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 regulations and procedures governing the CLF facility applicable to the PFIs and the end borrowers.

1- THE CREDIT LINE FACILITY

1.1 Introduction

With a view to promote access to formal finance, particularly in the microfinance sector, SBP has set up a Credit Line facility to Microfinance Banks (MFBs), Non-Bank Microfinance Companies (NBMFCs), and PMIC, for onward lending to women microfinance borrowers including microenterprises.

1.2 Objective

The objective of the CLF is to ease the liquidity constraint of microfinance sector and provide access to long-term market based funding that will enhance lending to women 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 CLF to MFBs and NBMFCs to extend loans to women microfinance borrowers including microenterprises and micro housing as defined by SBP in Prudential Regulations for MFBs. SBP will also provide CLF to other NBFCs (who are in the business of wholesale lending) for onward lending to MFBs and NBMFCs.

The CLF will also focus on:

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

1.4 Capital Structure

The Government of Pakistan has provided equivalent Pak Rupees through **Public Sector Development Program (PSDP)** under the ADB funded Women Inclusive Finance Program (WIFP).

1.5 Duration

The facility is initially set for a period of five years.

1.6 Management of the Facility

The CLF shall be managed through a CMC chaired by Executive Director, Financial Inclusion Group (SBP). The structure of the Committee will be as follows:

Designation of Nominee	Status	Organization
Executive Director – FIG	Chairperson	SBP
Director – ACFID	Member	SBP
Director – FISD	Member	SBP BSC
ED – Specialized Companies Division	Member	SECP
Joint Secretary – Internal Finance MOF	Member	MOF
CEO of PMN	Member	PMN
Advisor ADB	Member	ADB
Project Director	Member	yet to be appointed

The Fund Committee will perform following major functions:

- Review and approve allocation of limits to eligible PFIs (MFBs, NBMFCs and PMIC) based on due diligence carried out by Project Management Unit-SBP
- Periodically review the overall performance of the PFIs with respect to objectives of the Credit Line Facility (CLF) and semiannual reporting to Ministry of Finance (MoF) and ADB
- Design and adopt operational modalities (including appraisal framework) to ensure smooth implementation of the CLF
- Decide the Mark up rate or any rebate to be offered to PFIs.
- Consider measures to encourage off take of the CLF .
- Grant waivers/exceptions from specific requirements of the approved eligibility criteria
- Address any implementation issues and any other function to achieve the objectives of the CLF

The CMC's shall take decisions by consensus. The proposals along with necessary documents will be disseminated among members of CMC for its review before the meeting.

To encourage Commercial Banks and DFIs to provide repayment guarantees to NBMFCs, the CMC may propose steps.

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

<u>2- Operations of the Facility</u>

2.1 Eligibility Criteria

Applications will be invited from all PFIs for allocation of limits under CLF (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 100% 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 women clients. **Credit Management Committee** shall monitor performance of the PFIs on regular basis *viz-a-viz* their limits and disbursed funds. **Credit 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 **FISD** along with Demand Promissory Note. (Annexure-2&3)

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 CLF to provide loans to women 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 CLF will maintain the target of allocating 100 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 CLF will be available to PFIs on 6 months KIBOR +/- spread as decided by Credit 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 Credit 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 up to July 15 and Jan 15 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.

<u>3- UTILIZATION & MONITORING</u>

3.1 Proper Utilization of the Fund

The loan shall not be used for the purpose other than defined in these regulations/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 **Credit Management Committee**. Further, SBP inspection teams will regularly inspect the CLF 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 NBMFCs and NBFCs will have to arrange separate external audit of the CLF 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 CLF and submit a comprehensive borrower-wise report on quarterly basis (or as and when required) (Annexure-4) and an E&S report on yearly basis to **Credit Management Committee** defining sectors, geographic distribution and gender coverage or any other variable as desired by the Credit

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 & Financial Inclusion 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
   Financial Inclusion Support Department
   SBP BSC
   I.I. Chundrigar Road,
   Karachi.
   Phone: (+92 21 99221990)
   Fax: (+92 21 99221101)

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INTERPRETATIONS AND ABBREVIATIONS

ACFID	Agricultural Credit and Financial Inclusion Department
BP&RD	Banking Policy and Regulations Department
CAR	Capital Adequacy Ratio *(The ratio is currently 15% subject to review by SBP from time to time)*
FIG	Financial Inclusion Group
FISD	Financial Inclusion Support Department
E&S	Environmental and Social Risk Management
EAD	Economic Affairs Division
ED	Executive Director
FIs	Financial Institutions
Kibor	Karachi Inter-bank Offered Rate
CLF	Credit Line Facility
FIL	Financial Intermediary Loan
MCR	Minimum Capital Requirement as per regulatory requirements
MFBs	Microfinance Banks licensed by SBP
Micro-Borrower	The definition in the PRs as issued by SBP and as amended from time to time would be used.
Micro-Enterprise	The definition in the PRs as issued by SBP and as amended from time to time would be used
Micro-Housing Loans	The definitions in the PRs as issued by SBP and as amended from time to time would be used by the fund.
MoF	Ministry of Finance
NBFCs	Non-Bank Finance Companies licensed by SECP (who are in the business of wholesale lending to microfinance sector)
NBMFCs	Non-Banking Microfinance Companies licensed by SECP
PD	Project Director
PFIs	Participating Financial Institutions, which include MFBs, NBFCs and NBMFCs
PIU	Project Implementation Unit
PRs	Prudential Regulations for microfinance as issued by SBP and SECP
SBP	State Bank of Pakistan
ADB	Asian Development Bank
SECP	Securities and Exchange Commission of Pakistan

ANNEXURE-1

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 Credit Line Facility (CLF) - WIFP

1- This is with reference to SBP letter No. --------------- dated ---------------- regarding the allocation of limit to--------[the PFI] ------under the CLF (WIFP). In this regard, we hereby submit our application for disbursement of Rs. -------------- (Rupees. --- only). This requested allocation is based on a reasonable estimate of amounts that can be disbursed in the first three months.

2- We certify that the details of disbursements under CLF 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 CLF 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 CLF beside all the other applicable regulations.

Yours faithfully,

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ANNEXURE-2

FINANCE AGREEMENT

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

Dear Sir,

This is in consideration of your agreeing to make available to us a Credit Line Facility (CLF) under Section 17 Subsection 20 read with Section 22 of State Bank of Pakistan Act 1956; not exceeding Rs. ----------------------------- (Rupees) -- only), under State Bank of Pakistan's Credit Line Facility (CLF) of Women Inclusive Finance Program (WIFP) through ACFID 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 CLF regulations, this agreement, E&S guidelines, 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 CLF regulations 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:
        1. applicable environmental and social national and local laws and regulations of Pakistan; and
        2. List of Excluded Activities set forth in Annexure-1 of CLF E&S guidelines
    ii. Implement the mitigation and management measures specified in 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 and Working Conditions as described in E&S regulations for CLF.
    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.
vii. Deliver quarterly unaudited management accounts in electronic form in accordance with the financial reporting requirements of the SBP within 60 days of the end of each quarter.
viii. Deliver quarterly compliance certificates for financial covenants to be signed by the CLF chief financial officers within 60 days of the end of each quarter
ix. Deliver Annual audited financial statements, in accordance with international financial reporting standards within 120 days of the year-end as well as related management letters.
x. Deliver External and internal audit reports on CLF utilization. In case where the entity is regulated by SBP, only internal audit reports shall be submitted on annual basis.

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 CLF, 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 CLF
k. During SBP field reviews, each PFI will be required to;
    i. provide any relevant material observations of the audit committee and internal audit department, and
    ii. explain any material deviations from board-approved business plans and related Banking on Equality commitments
l. For the purpose of markup calculation, average daily balance of 360 days would be considered as a year.
m. 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.
n. 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.
o. 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

ANNEXURE-3

<u>DEMAND PROMISSORY NOTE</u>

(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 finance under the Credit Line Facility of Women Inclusive Finance Program (WIFP).

(Authorized Signature of the PFI)
Name and Seal

ANNEXURE - 4

DETAILS OF BORROWERS FINANCED UNDER FINANCIAL INTERMEDIARY LOAN (FIL)																		
Sr. No.	Branch Name & Place	District	Bank/ Institution	Particulars of Borrower					Type of Loan/ Loan Product	Particlulars of Finance							Status	DPD
				Name/s of Borrower/s	CNIC No. 00000-000000	Gender M/T/F	Rural/ Urban	Business		Date of Sanction	Date of Disbursement	Disbursed Amount	Outstanding Amount	Mark-up Rate	Collateral-s/	Date of Settlement		
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
						Male	Rural		Livestock/Poultry						Cheque		Regular	
						Female	Urban		Agriculture						Gold		OAEM	
						Transgender			Trade						Clean Lending		Sub-standard	
									Manufacturing/Production						Promissory Note		Doubtful	
									Services						Social Collateral		Loss	
									Renewable Energy						Group Lending		Write Off/Charged Off	
									Education						Stamp Paper		Closed	
									Other Enterprise								Watchlist	
									Housing									
									Transport									

ANNEXURE – 5

PROHIBITED INVESTMENT ACTIVITIES LIST (PIAL)

The following do not qualify for financing under the CLF:

(i) Production or activities involving harmful or exploitative forms of forced labor[1] or child labor;[2]

(ii) Production of or trade in any product or activity deemed illegal under Pakistan's laws or regulations or international conventions and agreements or subject to international phaseouts or bans, such as (a) pharmaceuticals,[3] pesticides, and herbicides,[4] (b) ozone-depleting substances,[5] (c) polychlorinated biphenyls[6] and other hazardous chemicals,[7] (d) wildlife or wildlife products regulated under the Convention on International Trade in Endangered Species of Wild Fauna and Flora,[8] and (e) transboundary trade in waste or waste products;[9]

(iii) Production of or trade in weapons and munitions, including paramilitary materials;

(iv) Production of or trade in all types of alcoholic beverages,

(v) Production of or trade in tobacco;[10]

(vi) Gambling, casinos, and equivalent enterprises;[11]

(vii) Production of or trade in radioactive materials,[12] including nuclear reactors and components thereof;

(viii) Cross-border trade in waste and waste products, unless compliant with the Basel Convention and the underlying regulations;

(ix) Production or activities involving harmful or exploitative forms of forced labor or harmful child labor;

(x) Activities involving land acquisition and/or restrictions on land use resulting in involuntary resettlement or economic displacement;

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1 Forced labor means all work or services not voluntarily performed, that is, extracted from individuals under threat of force or penalty.

2 Child labor means the employment of children whose age is below the host country's statutory minimum age of employment or employment of children in contravention of International Labor Organization Convention No. 138 "Minimum Age Convention" (www.ilo.org).

3 A list of pharmaceutical products subject to phaseouts or bans is available at http://www.who.int.

4 A list of pesticides and herbicides subject to phaseouts or bans is available at http://www.pic.int.

5 A list of the chemical compounds that react with and deplete stratospheric ozone resulting in the widely publicized ozone holes is listed in the Montreal Protocol, together with target reduction and phaseout dates. Information is available at http://www.unep.org/ozone/montreal.shtml.

6 A group of highly toxic chemicals, polychlorinated biphenyls are likely to be found in oil-filled electrical transformers, capacitors, and switchgear dating from 1950 to 1985.

7 A list of hazardous chemicals is available at http://www.pic.int.

8 A list is available at http://www.cites.org.

9 As defined by the Basel Convention; see http://www.basel.int.

10 This does not apply to subproject sponsors who are not substantially involved in these activities. Not substantially involved means that the activity concerned is ancillary to a subproject sponsor's primary operations.

11 This does not apply to subproject sponsors who are not substantially involved in these activities. Not substantially involved means that the activity concerned is ancillary to a subproject sponsor's primary operations.

12 This does not apply to the purchase of medical equipment, quality control (measurement) equipment, and any equipment for which the radioactive source to be trivial and adequately shielded.

(xi) Any activities involving significant degradation or conversion of natural and/or critical habitats and/or any activities in legally protected areas;

(xii) Production, trade, storage, or transport of significant volumes of hazardous chemicals, or commercial scale usage of hazardous chemicals (gasoline, kerosene, other petroleum products, textile dyes, and so on);

(xiii) Production or activities that have adverse impacts, including relocation, on the lands, natural resources, or critical cultural heritage subject to traditional ownership or under customary use by Indigenous Peoples;

(xiv) Activities involving significant adverse impacts on critical cultural heritage;

(xv) Activities resulting in conflicts between different castes or religious sects;

(xvi) Activities resulting in loss of trees;

(xvii) Activities resulting in contamination of groundwater and/or surface water bodies;

(xviii) Activities threatening the safety of communities;

(xix) Production or trade in or use of non-biodegradable packaging material such as polythene bags and Styrofoam;

(xx) Nuclear power plants (apart from measures that reduce environmental hazards of existing assets) and mines with uranium as an essential source of extraction;

(xxi) Prospection, exploration and mining of coal; land-based means of transport and related infrastructure essentially used for coal; power plants, heating stations and cogeneration facilities essentially fired with coal, as well as associated stub lines;

(xxii) Non-conventional prospection, exploration and extraction of oil from bituminous shale, tar sands or oil sands;

(xxiii) Production of, trade in, or use of unbonded asbestos fibers;[13]

(xxiv) Commercial logging operations or the purchase of logging equipment for use in primary tropical moist forests or old-growth forests; and

(xxv) Marine and coastal fishing practices, such as large-scale pelagic drift net fishing and fine mesh net fishing, harmful to vulnerable and protected species in large numbers and damaging to marine biodiversity and habitats.

(xxvi) Additionally, in the Pakistani context, borrowers will not be allowed to:

- Engage in cultivation, processing, and sale of poppy and/ or other illegal addictive substances (for example, heroin, hashish, opium, bhang).
- Sale of addictive substances such as tobacco, gutka, niswar, cigarettes, beeri, hukka, paan parag, sheesha and any other products containing such substances to persons under the age of 18
- Illegal wood extraction
- Hunting, poaching and fishing in protected areas
- Informal cross-border trade
- Smuggling or sale and handling of smuggled goods.

13 This does not apply to the purchase and use of bonded asbestos cement sheeting where the asbestos content is less than 20%.