



September 28, 2010

Updated Instructions on Refinance Facility for Modernization of SMEs

SBP has launched Scheme for Modernization of Cotton Ginning Factories and Rice Husking Mills vide SMEFD Circulars No. 14 & 17 dated September 04, 2009 and November 2, 2009 respectively. Subsequently the scope of said Schemes was expanded to a wide range of SME Clusters/Sectors vide SMEFD Circular No. 07 dated May 06, 2010. Moreover instructions have also been issued to the banks/DFIs that SBP shall allocate yearly targets/limits under the Scheme to enable Banks/DFIs to directly sanction and disburse the loans, without SBP's prior confirmation of availability of funds on case to case basis.

Hence in order to facilitate the stakeholders, we have consolidated all instructions of the subject Scheme which are given in Annexure-I.

State Bank of Pakistan
SME Finance Department

Annexure-I**Refinancing Facility for Modernization of Small and Medium Enterprises (SMEs)****1. Scope and Eligibility Criteria:**

- i) Financing shall be available to wide range of SME Clusters / Sectors. An illustrative list of SME Clusters / Sectors is attached.
- ii) Only SME borrowers, as defined in Prudential Regulations for SMEs, shall be eligible to avail financing facilities under the Scheme.
- iii) Financing shall be available for purchase of new imported/local plant & machinery for BMR of existing units and setting up of new SME units.
- iv) Financing shall also be available for import/ local purchase of new generators up-to a maximum capacity of 500 KVA under the Scheme. The capacity of generator shall, however, not be in excess of SME Unit's in-house energy requirements or up-to 500 KVA, whichever is less.
- v) The scheme will remain effective up to December 31, 2012.

2. Period of Financing and Grace Period:

Financing under the Scheme shall be available for a maximum period of ten years including a maximum grace period of six months.

3. Participants:

Financing facilities under the Scheme shall be provided through all commercial banks and Development Finance Institutions (DFIs).

4. Banks/DFIs-Wise Refinance Limits:

- i) Yearly limits shall be allocated to individual banks/DFIs under the Scheme.
- ii) The limits shall be allocated for each fiscal year from 1st July to 30th June, which will be reviewed on quarterly basis.
- iii) Applications for sanction of limits for each fiscal year (July-June basis) shall be sent by the interested banks/DFIs to the Director, SME Finance Department, latest by 15th May each year to facilitate sanction of annual limits at the earliest.

5. Rates of Service Charges / Mark-up:

- i) The rate of service charge at which SBP will provide refinance to the banks/DFIs shall be determined on the basis of / reference to the average of weighted average yields of last two auctions of 3, 5 and 10 years PIBs subject to the following:-

- a) The service charges shall be announced for each fiscal year and shall remain valid for a period of one year from 1st July to 30th June.
- b) The rate of mark-up once fixed shall remain locked-in for the entire duration of the loan, provided the borrowers continue to repay all scheduled installments by the respective due dates. Similarly, in cases where the loan amount is not disbursed in full during the validity of an applicable rate, the un-disbursed amount shall attract the new rate of finance/refinance applicable on the date of its disbursement by the bank/DFI.

ii) Current rates under the Scheme are as under:

Tenor	Rate of Refinance	Banks'/DFIs' Spread	End Users' Rate
Up-to 3 years	5.50%	2.50%	8.00%
Over 3 years and up-to 5 years	6.25%	2.75%	9.00%
Over 5 years and up-to 10 years	7.00%	3.00%	10.00%

6. **Grant of Refinance:**

- i) The State Bank shall provide refinance to each bank/DFI on service charges (mark-up) basis in terms of Section 17 (2) (d) read with section 22 of State Bank of Pakistan Act 1956.
- ii) Refinance shall be allowed to the Banks/DFIs by the concerned office(s) of SBP BSC (Bank) on submission of documents as may be required by State Bank. The documents initially required are available at following link of SBP's Website:

<http://www.sbp.org.pk/smefd/circulars/2009/Anexx-C-17-B.pdf>

7. **Repayment of the loans:**

- i) Principal amount of loans shall be repayable in equal quarterly / half yearly installments after prescribed grace period, if any. However, if a borrower repays the loan amount or its installment, in part or in full, before the due date(s), the banks/DFIs shall be under obligation to repay the amount(s) so received within three 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/DFI, at the rate specified by the State Bank.
- ii) The refinance granted by SBP-BSC offices to the Banks/DFIs shall be recovered on the due dates as reported in the original repayment schedule from the account of the banks/DFIs maintained with the respective office of 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/DFI 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/DFIs to pay/repay to SBP BSC the principal amount of refinance, or mark up 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.

iii) Mark-up shall be paid on quarterly basis.

8. **Other Terms & Conditions:-**

- i) Financing under the Scheme shall be subject to compliance with all rules and regulations including Prudential Regulations for SMEs.
- ii) Banks/DFIs shall not take more than six weeks in evaluating an application for financing under the Scheme from the date of receipt of complete information from the borrower. Where the request is declined, the bank/DFI will explicitly apprise the prospective borrower of the reasons for rejecting the application.
- iii) Financing banks/DFIs 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.
- iv) Financing under the scheme shall be available only against LCs in case of financing against imported plant and machinery.
- v) Banks/DFIs shall consider financing based on the debt to equity requirements as prescribed in Prudential Regulations for SMEs. The financing bank/DFI may, however, ask for higher contribution of equity from the borrowers keeping in view individual risk profile.
- vi) Refinance shall be provided on the basis of certification by the Internal Audit of the financing bank/DFI 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.
- vii) Second-hand machinery shall not be eligible under the scheme.
- viii) Financing under the Scheme shall be checked/verified by our Banking Inspection Department (BID) during inspection of the banks/DFIs to ensure that the same have been allowed as per the terms and conditions of the Scheme.
- ix) Financing shall not be available for the purpose of acquisition of land, construction of building etc.
- x) 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 borrowers.

- xi) Advance payment to the extent of 20% of the C&F value / ex-factory / showroom price can be made in terms of related underlying agreement by securing the bank's interest.
- xii) Disbursements by banks/DFIs should not be made to the borrower directly; instead payments shall be made to the manufacturers / suppliers of the machinery.
- xiii) Where a bank/DFI 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 10 years from the date of original disbursement made by the banks/DFIs. 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.

9. Fines:-

- i) 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/DFI along-with fine at the rate of Paisa 60 per day per Rs 1000/- or part thereof.
- ii) In case, a borrower will make early repayment(s) of the amount of loan/installment(s) and bank/DFI fails to repay the same to concerned office of SBP-BSC within three working days as mentioned in clause 7(i) above, late adjustment fine will be charged from the concerned bank/DFI 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.

Illustrative list of SME Clusters / Sectors

- (i) Rice Husking,
- (ii) Cotton Ginning,
- (iii) Power Looms,
- (iv) Dairy & Livestock,
- (v) Cutlery & Stainless Utensils,
- (vi) Surgical Instruments,
- (vii) Marble & Granite,
- (viii) Engineering Goods, (Electronic),
- (ix) Fisheries,
- (x) Packaging / Processing of Fruits / Vegetables,
- (xi) Furniture,
- (xii) Gems & Jewellery,
- (xiii) Sports Goods,
- (xiv) Agro-based Industry
