



STATE BANK OF PAKISTAN
Infrastructure, Housing & SME Finance Department
I. I. Chundrigar Road
Karachi

IH&SMEFD Circular No. 03

June 20, 2016

The Presidents/Chief Executives,
All Banks/DFIs

Dear Sir /Madam,

Revised SBP Financing Scheme for Renewable Energy

1. Background

State Bank of Pakistan announced the scheme for Financing Power Plants using Renewable Energy in 2009, with a view to promote renewable energy projects in the country. Keeping the low utilization of the scheme in view, the scope and financial mechanism have been revised to make it more attractive to borrowers and financing banks/DFIs.

2. Objective

Pakistan's economy is currently facing the dual challenge of energy shortage and climate change. The inadequate supply of energy has severely impacted the growth of industries/businesses and the welfare of public in general. Similarly, the effects of climate change have been observed in the form of devastating floods, droughts, heat waves and changing weather patterns. These changes essentially inhibit our ability to develop sustainably.

In order to overcome these challenges, SBP decided to promote green banking i.e. use of indigenous resources especially renewable energy in order to ensure sustainable banking and development. For this purpose, the scheme has been amended based on the feedback received from various stakeholders. The scheme will provide concessionary financing for large renewable energy power projects as well as for small scale renewable energy solutions.

3. Scope

The scheme shall be available for power generated by using alternative / renewable energy sources (solar, wind, hydro, biogas, bio-fuels, bagasse cogeneration, and geothermal as fuel). Scheme is available under two categories, as given below:

- I. Prospective sponsors, desirous of setting up renewable energy power projects with a capacity ranging from more than 1 MW and up-to 50 MW¹, who have completed

¹ Subject to maximum refinance from SBP of Rs 6 billion per project. Banks/DFIs may structure loan as per their own terms & conditions for any amount exceeding this limit.

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prescribed requirements of Alternative Energy Development Board (AEDB) and other relevant Government Department / Authority, in compliance with the prevalent Renewable Energy Policy of the Government of Pakistan.

- II. Consumers willing to install facility using renewable energy source for generation of electricity ranging from 4 KW to 1000 KW (0.004 MW to 1 MW) for own use and/or for supply to the distribution company as per the rules set by NEPRA (Alternate & Renewable Energy) Distributed Generation and Net Metering Regulations, 2015.

4. Participants

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

5. Grant of Refinance

- i. The State Bank shall provide refinance to each bank/DFI on service charge (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 of Pakistan. The documents initially required are attached herewith.

6. Category I of the Scheme

The provisions under this section (section 6) are only applicable for Category I of the scheme.

a) Eligibility Criteria under Category I:

- i) Financing shall be available to the prospective sponsors desirous of setting up of renewable energy power projects with a capacity ranging from more than **1 MW to 50 MW**, who have completed prescribed requirements of Alternative Energy Development Board (AEDB) and other relevant Government Departments / Authority (Federal or Provincial), in compliance with the prevalent Renewable Energy Policy of the Government of Pakistan.
- ii) Financing shall be available for projects achieving financial closure from the date of issuance of this circular and up-to **June 30, 2019** only, depending on the availability/utilization of funds earmarked for the Scheme.
- iii) Refinance would be provided for up-to **100%** of financing (**debt**), provided by banks/DFIs to the eligible projects subject to adherence of other rules & regulation. However, maximum refinance allowed under the Scheme cannot be more than Rs. 6 billion for a single Renewable Energy Project.



b) Availability of Funds:

- i) Financing under the scheme shall be provided by the banks/DFIs on first come first served basis within the overall amount earmarked for this purpose. While adequate funds have been earmarked for the scheme under reference, the banks/DFIs shall, however, be required to approach IH&SME Finance Department, State Bank of Pakistan, after their internal approval of financing to each project for confirming the availability of funds. State Bank of Pakistan will respond to the concerned bank/DFI with a copy to the concerned office of the SBP BSC (Bank) from where it will avail refinance. In case banks/DFIs have not disbursed 1st installment / made firm contract with down payment, the confirmation / approval of availability of funds from SBP should lapse within a period of six months.
- ii) State Bank has the right at any time to reject the request or partially offer the refinance facility for the proposed project subject to availability of allotted funds under this scheme or depending on maximum exposure of State Bank of Pakistan on certain renewable energy sector/ technology.

c) Period of Financing and Grace Period:

Financing under Category I of the scheme shall be available for a maximum period of twelve years including a maximum grace period of two years from the date of first disbursement. The grace period may vary depending upon the type of renewable energy source. Therefore, banks / DFIs shall clearly mention the "grace period" in the repayment schedule to be submitted to the concerned office of SBP-BSC (Bank) at the time of availing refinance.

d) Rates of Service Charges / Mark up:

- i) The rate of service charge at which SBP will provide refinance to the Banks/DFIs shall be fixed for the entire duration of the loan, provided the borrowers continue to repay on due dates as per repayment schedule.
- ii) Service charges and rates for end users have been fixed as per the following:-

Tenor	Rate of Refinance	Bank's/DFIs' Spread	End User's Rate
Up-to 12 years	2.00%	4.00%	6.00%

e) Repayment of the loans:

- i) Principal amount of loans shall be repayable in quarterly or half yearly installments after prescribed grace period, if any. However, if a borrower will

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- repay 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 market 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.
- f) **Other Terms & Conditions:**
- i) Maximum refinance allowed against debt component under the Scheme is Rs 6 billion for a single Renewable Energy Project. In case of consortium arrangements, which are preferred for larger financing requirements, only lead bank/DFI shall be required to approach SBP on behalf of the syndicate/consortium to confirm availability of funding.
- ii) Financing under the scheme shall be subject to compliance with all rules and regulations including Prudential Regulations for Corporate/ Commercial Banking and foreign exchange related instruction issued by SBP from time to time.
- iii) Banks/DFIs shall not take more than three months 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 reasons for rejecting the application to the prospective borrower.
- iv) Moreover, banks/DFIs may also ensure that firm commitments for the portion of funding not to be financed by SBP (in the form equity, conventional bank finance etc.) are available for the project being financed by them under the scheme, so that the project does not eventually suffer due to any funding gap. Firm equity commitment from the sponsors may be made in the form which is satisfactory for the financing bank/DFI. The State Bank of Pakistan would, however, not insist on fulfillment of this condition by a specified mode but would let the bank/DFI to satisfy itself in this regard.

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- v) Captive power projects which have already availed financing facilities under LTFF scheme shall not be eligible for financing under this scheme.
- vi) Fixed term loans which have been extended prior to the announcement of this scheme shall not be eligible for refinance.
- vii) Banks/DFIs shall ensure that contracts/agreements between sponsors and suppliers/contractors etc are made on arms length basis in order to avoid any conflict of interest.
- viii) Refinance shall be provided on the basis of certification by the Internal Audit of 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 (Bank) at the time of availing the refinance facility.
- ix) Second-hand machinery shall not be eligible under the scheme.

7. Category II of the Scheme

The provisions under this section (section 7) are only applicable for Category II of the Scheme.

a) Eligibility Criteria:

- i) Financing shall be available to consumers (domestic, commercial or industrial) willing to install facility using renewable energy source for generation of electricity ranging from **4 KW to 1000 KW (0.004 MW to 1 MW)** for own use or for supply to the distribution company as per the rules set by NEPRA (Alternate & Renewable Energy) Distributed Generation and Net Metering Regulations, 2015.
- ii) Financing shall be available for new systems installed from the date of issuance of this circular and up-to **June 30, 2019** only, depending on the availability/utilization of funds earmarked for the Scheme.
- iii) Refinance may be provided for **100%** of financing provided by banks/DFIs to the eligible borrowers subject to adherence of other rules & regulations.

b) Terms of Financing:

- i) Financing under the Scheme shall be available for upto a maximum period of **ten years** with no grace period.
- ii) Service charges and rates for end users under Part II of the Scheme have been fixed as per the following provided the borrowers continue to repay on due dates as per repayment schedule:-



Tenor	Rate of Refinance	Bank's/DFIs' Spread	End User's Rate
Up-to 10 years	2.00%	4.00%	6.00%

c) **Repayment of the loans:**

- i) Principal amount of loans and Mark-up shall be repayable in monthly / quarterly installments. However, if a borrower will repay 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 market 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.

8. General Terms & Conditions

- i. 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 malpractices and mis-utilization of funds under the scheme.
- ii. Besides applying due diligence process as per their lending policies, standard / appropriate procedures in such types of financing, banks/DFIs may also impose any specific condition(s), considered appropriate by them in such type of transactions, while sanctioning loan under the scheme to protect their interests.
- iii. Banks/DFIs shall consider financing based on the debt to equity requirements as prescribed in relevant Prudential Regulations. The financing bank/DFI may, however, ask for higher contribution of equity from the borrowers keeping in view individual risk profile.
- iv. 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

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- v. 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 as prescribed under each category from the date of first 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 high.
- vi. Disbursements by banks/DFIs shall not be made to the borrowers directly; instead payments shall be made to the manufacturers / suppliers / contractors.

9. Fines

- i. In case of violation of the terms & conditions of the scheme, the SBP 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 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.

Yours faithfully,

(Ghulam Muhammad)

Director