

SBP Financing Scheme for Renewable Energy

1. Background

The Green Banking initiative of State Bank of Pakistan is designed to inculcate environmental considerations in banking products, services and operations. As part of this initiative, State Bank has issued Revised SBP Financing Scheme for Renewable Energy on June 20, 2016 with a view to promote renewable energy projects in the country. The Scheme has generated interest among banks and DFIs as well as sponsors of renewable energy projects.

The SBP Financing Scheme for Renewable Energy has been further revised with a view to streamline features and incentives and expand scope of the Scheme to make it more attractive to borrowers and financing banks/DFIs.

2. Objective

Pakistan's economy is 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 support in overcoming 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. The Scheme also facilitates installation of renewable energy based solutions/ projects under net metering system introduced by National Electric Power Regulatory Authority (NEPRA).

3. Scope

The scheme shall be available for power generation using alternative / renewable energy sources (i.e. solar, wind, hydro, biogas, bio-fuels, bagasse cogeneration, and geothermal as fuel). Scheme is available under three 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 MW.
- II. Prospective sponsors, desirous of installing renewable energy based solutions for generation of electricity up-to 1 MW.
- III. Vendors and suppliers certified under AEDB Certification Regulation 2018 for installation of wind and solar systems on lease basis or selling of electricity.

4. 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 of Pakistan. The documents required are attached.

5. Participating Financial Institutions (PFIs)

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

6. Bank/DFI-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.
- iii. Applications for sanction of limits for each fiscal year (July-June basis) shall be sent by the interested banks/ DFIs to the Director, Infrastructure, Housing & SME Finance Department, latest by 15th May each year. For the current year, the request for sanction of limits may be submitted within 30 days from the date of issuance of the Circular.
- iv. Applications for sanction of limits under the Scheme alongwith a requisition form detailing projects in pipeline with financing requirements expected to be disbursed during the year. The requisition form is attached.
- v. SBP shall review the utilization of limits by the banks/DFIs periodically and may cancel the unutilized limit for reallocation to other banks/DFIs. No bank/DFI shall be authorized to sanction financing with a view to merely utilize the limit under the Scheme.
- vi. The disbursements of banks/DFIs in the absence of valid refinance limit at the time of such disbursements shall not be considered for refinance under the Scheme.

7. Category I of the Scheme

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

a. Eligibility Criteria:

- i. Financing shall be available to the prospective sponsors who intend to set up renewable energy power projects with a capacity ranging from more than 1 MW to 50 MW for their own use, selling of electricity to the national grid (including distribution companies) or combination of both.
- ii. The prospective sponsors shall be required to have completed applicable requirements of Alternative Energy Development Board (AEDB), National Electric Power Regulatory Authority

(NEPRA) and other relevant Government Departments / Authority (Federal or Provincial), in compliance with the prevalent Renewable Energy Policy of the Government of Pakistan.

- iii. The refinance under this Scheme shall be up-to 100% of total financing (debt) of an eligible RE project of upto 20 MW and up-to 50% of financing (debt) of an eligible RE Project of more than 20 MW, subject to adherence of other rules & regulations. However, maximum refinance allowed under the Scheme cannot be more than Rs. 6 billion for a single renewable energy project.

b. Rates of Service Charges / Mark up:

- i. The rate of service charges 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:-

Rate of Refinance	Maximum bank/ DFI's Spread	Maximum End User Rate
3.00%	3.00%	6.00%

c. Terms of Financing:

- i. Financing under Category I of the Scheme shall be available for a maximum period of twelve (12) years including a maximum grace period of two (02) 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.
- ii. Principal amount of loans shall be repayable in quarterly or half yearly installments after prescribed grace period, if any.
- iii. Mark-up shall be paid on quarterly basis.

d. Other Terms & Conditions:

- i. For financing requirements within the maximum limit of Rs. 6 billion, financing banks/DFIs may enter into consortium arrangements.
- ii. The financing bank/DFI may 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.

- iii. Captive power projects which have already availed financing facilities under any of SBP's long-term refinance facilities shall not be eligible for financing under this Scheme.
- iv. The banks/DFIs shall ensure that disbursements by banks/DFIs are not made to the borrowers directly; instead payments are made to the manufacturers / suppliers / contractors in line with underlying contracts and construction milestones.
- v. 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.
- vi. Advance payment to the extent of 20% of the C&F value / ex-factory price/ EPC contract can be made from the financing availed under the Scheme in terms of related underlying agreement. Any advance payment extended by banks/DFIs in excess of 20% shall be eligible for refinance along with last scheduled payment to the supplier/ contractor.
- vii. The banks/DFIs shall not take more than three months in evaluating an application for financing under this Category of the Scheme from the date of receipt of complete information from the borrower.

8. Category II of the Scheme

The provisions under this Section (Section 8) are only applicable for Category II of the Scheme.

a. Eligibility Criteria:

- i. Financing shall be available to domestic, agricultural, commercial and industrial borrowers who are desirous of installing renewable energy based projects/ solutions of up-to 1 MW for generation of electricity. A borrower may install more than one renewable energy source based projects/ solutions of up-to 1 MW each with the condition that such projects must not be located contiguously.
- ii. The energy generated from these projects may be for own use or for supply to the distribution company as per the rules set by NEPRA under their Net Metering Regulations (as amended from time to time).
- 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. Maximum amount of Refinance:

The consolidated borrowing of a single borrower under this Category shall not exceed Rs. 400 million.

c. Rates of Service Charges / Mark up:

- i. The rate of service charges 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:-

Rate of Refinance	Maximum bank/DFI's Spread	Maximum End User Rate
2.00%	4.00%	6.00%

d. Terms of Financing:

- i. Financing under the Scheme shall be available for upto a maximum period of ten (10) years, including maximum grace period of three (03) months.
- ii. Principal amount of loans shall be repayable in monthly, quarterly or half yearly installments.
- iii. Mark-up shall be paid on monthly or quarterly basis.

e. Other Terms & Conditions:

- i. Disbursements by banks/DFIs shall not be made to the borrowers directly; instead payments shall be made to the manufacturers / suppliers / contractors in line with underlying contracts and construction milestones.
- ii. 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.
- iii. Advance payment to the extent of 20% of the C&F value / ex-factory price/ EPC contract can be made from the financing availed under the Scheme in terms of related underlying agreement. Any advance payment extended by banks/DFIs in excess of 20% shall be eligible for refinance upon completion of the project.
- iv. The banks/DFIs shall not take more than one month in evaluating an application for financing under this Category of the Scheme from the date of receipt of complete information from the borrower.

9. Category III of the Scheme

The provisions under this Section (Section 09) are only applicable for Category III of the Scheme.

a. Eligibility Criteria:

- i. The financing under this Category is available to vendors / suppliers of renewable energy equipment certified under AEDB Certification Regulation 2018.
- ii. Moreover, the certified vendors/ suppliers shall also be required to obtain all applicable approvals of AEDB, NEPRA and other relevant government departments/ agencies (including distribution companies).

- iii. The financing shall be utilized by vendors/suppliers for onward leasing of renewable energy equipment or sale of electricity to ultimate owners/users. The capacity of a single renewable energy project/ solution shall not be more than 1 MW. The ultimate owners/users may be individuals/entities who, being clients, are the counterparties of vendors/ suppliers in their transactions of leasing out renewable energy equipment or selling of electricity. In case of leasing, the ultimate owners/users may be installing the RE equipment for their own use and/or supply to the Distribution Company under NEPRA's Net Metering Regulations.
- iv. A vendor may lease and/or install more than one renewable energy source based projects/ solutions of up-to 1 MW each for a single ultimate owner/user. However, any two or more of such projects/ solutions for a single ultimate owner/user must not be located contiguously.
- v. Refinance may be provided for 100% of financing provided by banks/DFIs to the eligible borrowers subject to adherence of other rules & regulations.

b. Maximum amount of Refinance:

The consolidated borrowing of a single vendor/ supplier under this Category shall not exceed Rs. 1 billion. For financing requirements within this limit, financing banks/DFIs may enter into consortium arrangements.

c. Disbursement of Financing:

- i. The vendor/ supplier shall avail the facility separately for each client, being the ultimate owner/user of installed RE equipment.
- ii. The disbursement shall be made to the vendor/supplier, within consolidated borrowing limit of that vendor/supplier, subject to completion of pre-disbursement formalities as laid down hereinafter.
- iii. The financing bank/DFI shall convey the cushion available within consolidated borrowing limit with each refinance disbursement request for a vendor/ supplier to the relevant SBP BSC. Any disbursement in excess of consolidated borrowing limit of that vendor/ supplier shall be subject to immediate recovery from financing bank/DFI and may also attract penalty as per the rates specified by State Bank of Pakistan.
- iv. To avail the facility, the lending bank/DFI shall submit disbursement request to the relevant SBP BSC office along with following documents (in addition to documents specified under Section 4(ii) above):
 - a. Agreement of lease or sale of energy between vendor / supplier and the ultimate owner/user along with schedule of payment of lease rentals or energy bills.
 - b. Schedule for repayment of finance to SBP BSC.
 - c. In case of leasing, proof of vendor/ supplier to have received upfront payment of not less than 20% of total installation price from the ultimate owner/user.
 - d. In case of energy sale agreement, security deposit by ultimate owner/user equivalent to expected average three months electricity bill in a remunerative account in the financing bank/DFI.

- e. Undertaking of ultimate owner/user to route his payments of lease rentals / energy bills through the bank/DFI.
 - f. Tripartite agreement creating lien of bank/DFI on the RE equipment installed.
 - g. Approvals of all relevant government departments / agencies, including issuance of license by NEPRA, approval / no objection of relevant distribution company etc.
- v. The banks/DFIs shall ensure that contracts/agreements between vendors/ suppliers and ultimate owners/users as well as those of vendors/ suppliers with their suppliers / manufacturers etc are made on arms length basis in order to avoid any conflict of interest.

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:-

Rate of Refinance	Maximum bank/DFI's Spread	Maximum End User Rate
3.00%	3.00%	6.00%

e. Terms of financing:

- i. The disbursements to the vendor/ supplier for a single client (ultimate owner/user) shall constitute a separate loan facility with its own repayment schedule not exceeding ten (10) years from the date of first disbursement to vendor/ supplier for that particular client.
- ii. The vendor/ supplier, being the borrower, shall remain liable for repayment of loan amount to the lending bank/DFI, irrespective of whether the ultimate owner/user makes rental/energy bills payments or not.
- iii. Principal amount of loans shall be repayable in monthly, quarterly or half yearly installments.
- iv. Mark-up shall be paid on monthly or quarterly basis.

f. Other Terms & Conditions:

- i. The vendors/ suppliers shall, on quarterly basis, submit Asset Health Report to the financing bank/DFI.
- ii. The banks/DFIs shall not take more than one month in evaluating an application for financing under this Category of the Scheme from the date of receipt of complete information from the borrower.

- iii. In case of government entities/ departments being ultimate owners/ users as clients of vendors/suppliers, SBP may examine requests for relaxing maximum limit of 1 MW for a single project/ solution.

10. Repayment of Financing

- i. 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 a borrower fails to make repayment of the amount of installment as per the original repayment schedule(s), 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.
- iii. 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 borrowers nor shall such liability be affected by any default on the part of the borrowers.

11. General Terms & Conditions

- i. Financing under the Scheme shall be subject to compliance with all rules and regulations including Prudential Regulations. Further, compliance with the instructions related to foreign exchange regulations/ policy must be ensured, for which Exchange Policy Department of SBP may be contacted separately.
- ii. The financing bank/DFI shall approach relevant SBP BSC for refinance at the earliest, not later than four (04) weeks after disbursement of financing to the borrower.
- 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 malpractices and mis-utilization of funds under the Scheme.
- iv. 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.
- v. Where an application for financing under the Scheme is declined, the bank/DFI will explicitly apprise the reasons for rejecting the application to the prospective borrower.
- vi. 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 be submitted to the concerned office of SBP BSC (Bank) at the time of availing refinance for the first time for a borrower while copies of

certificates in respect of subsequent disbursements may be submitted at the time of availing last refinance for the same borrower/project.

- vii. Second-hand equipment/machinery shall not be eligible under the Scheme.
- viii. Acquisition of land shall not be eligible for financing under the Scheme.
- ix. For a borrower under any Category of the Scheme, the financing bank/DFI may structure loan as per own terms & conditions for any amount exceeding the limit specified under that Category.
- x. Financing under the Scheme shall be checked/verified by SBP's Banking Inspection Department (BID) during inspection of the banks/DFIs to ensure that the same has been allowed as per the terms and conditions of the Scheme.
- xi. 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 higher.

12. 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 makes 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.

13. Period of Scheme

Financing under this Scheme shall be available for projects under Category I achieving financial closure and new sanctions under Category II or III after date of issuance of this Circular and up-to June 30, 2022 only.