

**Islamic Financing Facility
for Renewable Energy (IFRE)**

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List of Abbreviations

AEDB	Alternative Energy Development Board
BID	Banking Inspection Department
DFI	Development Finance Institution
IB	Islamic Bank
IBB	Islamic Banking Branch
IBI	Islamic Banking Institution
IFRE	Islamic Financing Facility for Renewable Energy
ILTFF	Islamic Long Term Financing Facility
LTFF	Long Term Financing Facility
MW	Mega Watt
NEPRA	National Electric Power Regulatory Authority
PIFI	Participating Islamic Financial Institution
RE	Renewable Energy
RF-IFRE	Islamic Financing Facility for Renewable Energy Reserve Fund
SBP	State Bank of Pakistan
SBP BSC	State Bank of Pakistan, Banking, Services Corporation

Key Terms and Definitions

Customer: The entity or person seeking or availing financing facility from the PIFI under the Islamic Financing Facility for Renewable Energy.

Facility: Finance/ mudarabah investment(s) provided by State Bank of Pakistan (SBP) under the Facility.

General Pool: General Pool means the Mudarabah-based pool of funds managed by the PIFI where funds of the majority of the depositors are invested/ deployed.

Grace Period: A period at the beginning of the Mudarabah investment/ financing during which only profit/ rentals will be paid by customer. During this period SBP will not take back its investment from IBIs.

Islamic Bank (IB): Full fledged Islamic commercial banks including Islamic banking subsidiaries of conventional banks.

Islamic Banking Branches (IBBs): Designated Islamic banking branches of conventional banks established under IBD Circular No.02 of 2004.

Islamic Banking Institutions (IBIs): Full fledged Islamic commercial banks, Islamic banking subsidiaries of conventional banks and Islamic banking branches of conventional banks.

Participating Islamic Financial Institutions (PIFIs): Full fledged Islamic commercial banks, Islamic banking subsidiaries of conventional banks, Islamic banking branches of conventional banks and DFIs having authorized Islamic financing operations who are selected as participatory institutions under the Scheme.

Mudarabah Investment: An investment made on the basis of mudarabah by SBP in the general pool of PIFI for the purpose of this Scheme.

Scheme: Scheme will be a combined reference to the Facility along with the regulatory instructions issued hereunder.

Ultimate Owners/ Users: The ultimate owners/ users under Category III of the Facility, may be individuals/ entities who, being clients, are the counterparties of vendors/ suppliers in their transactions of leasing of renewable energy equipment or selling of electricity.

Islamic Financing Facility for Renewable Energy (IFRE)

In order to make available SBP's "Financing Facility for Renewable Energy" to all Islamic Banking Institutions (IBIs) and DFIs having authorized Islamic financing operations, a Mudarabah based "Islamic Financing Facility for Renewable Energy" (hereinafter referred as "IFRE", "Facility") is being launched. Mudarabah investment would be provided to IBIs and DFIs having authorized Islamic financing operations selected as Participating Islamic Financial Institutions (PIFIs) on their financing to the eligible projects/ sponsors. Under this Facility, SBP acting as Rab-ul-Maal shall make Mudarabah investments in general pool of PIFIs. The exposure of SBP under the Scheme shall be on all assets of the PIFI's general pool to the extent of SBP's investment, and therefore shall not be limited to the assets financed under the Facility.

This document comprises of the following two main sections:

1. **The Facility**, containing details of the Scheme pertaining to scope and categories and their respective eligibility criteria, period of financing, assignment of financing limits for PIFIs, disclosure requirements, redemption/ repayment of financing and period of Mudarabah investment

This section also covers the Shariah structure of the Facility which discusses the disbursement of funds from SBP to PIFI under Mudarabah, investments being part of the general pool of assets of PIFI, expected return on financing and investment and profit/ loss allocation & distribution.

2. **Regulatory instructions** which contain instructions of the State Bank of Pakistan for PIFIs to follow under this Scheme such as risk assessment, penalties and general terms and conditions.

1. The Facility:

1.1. Scope of the Facility:

The financing under this Facility shall be available for power projects/ installations using alternative/ renewable energy sources (solar, wind, hydro, biogas, bio-fuels, bagasse cogeneration, and geothermal as fuel). The Facility is available under following three categories:

- I. Financing to the prospective sponsors, desirous of setting up renewable energy power projects with a capacity ranging from more than 1 MW and up-to 50 MW shall fall under Category – I of this Facility.
- II. Financing to prospective sponsors, desirous of installing renewable energy source based solutions for generation of electricity up-to 1 MW shall fall under Category II of this Facility.
- III. Financing to vendors and suppliers certified under Alternative Energy Development Board (AEDB) Certification Regulation 2018 (as amended from time to time) for installation of wind and solar systems on lease basis or selling of electricity shall fall under Category III of this Facility.

1.2. Participating Islamic Financial Institutions (PIFIs):

- i. All Islamic Banking Institutions (IBIs) including full-fledged Islamic banks, Islamic banking subsidiaries and Islamic banking branches of conventional banks and all DFIs having authorized Islamic financing

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operations under permission of SBP (collectively referred to as PIFIs) may participate in the Scheme by submitting an application to the concerned department of SBP.

- ii. Islamic banking branches of conventional banks/ DFIs may participate in the Scheme by applying to SBP for allocation of sub-limit, subject to a maximum of 20% of the parent bank/ DFI's limit under the SBP Financing Scheme for Renewable Energy, for utilization by Islamic banking branches under this Scheme. SBP may consider request for enhancement of the ceiling of 20% on case-to-case basis depending upon the merit of each request and keeping in view size and operations of the Islamic banking business of the PIFI.
- iii. The applications will be processed in accordance with SBP's criteria as follows:
 - a. PIFI should meet the minimum capital adequacy requirements set by SBP from time to time.
 - b. PIFI should have minimum 3 years experience of project financing/ long term financing (*Applicable only for financing under Category I and Category III of the Scheme*).
 - c. PIFI should have profitable operations during last consecutive three years.
 - d. SBP would consider the requests of PIFIs keeping in view the CAELS ratings assigned by SBP as well as ratings assigned by Credit Rating Agencies in Pakistan.

1.3. Assigning Financing Limits for PIFIs:

- i. SBP shall allocate/ assign financing limit to individual PIFI under the Facility for each financial year (from 1st July to 30th June) on the basis of SBP's internal criteria. The total sum disbursed during a financial year by the PIFI under the Scheme shall not exceed such assigned limit.
- ii. Applications for sanction of limits for each financial year (July-June basis) shall be sent by the interested PIFI to the Director of concerned SBP department, each year on such date and in such manner as may be advised by SBP from time to time.
- iii. Applications for sanction of limits under the Scheme shall accompany a requisition form detailing projects in pipeline with financing requirements expected to be disbursed during the year. The requisition form is attached herewith.
- iv. After sanction of limits for each fiscal year, the PIFI shall submit a duly executed agreement for availing the Facility as per prescribed format (IFRE: 1 – Master Mudarabah Agreement) along with the names of offices of SBP BSC from where it intends to avail the Facility.
- v. The funds made available under the Facility to PIFIs shall be provided by the designated offices of SBP BSC under the limits conveyed by the concerned department of SBP in favor of each PIFI, on yearly basis.
- vi. SBP shall review the utilization of limits by the PIFIs periodically and may cancel the unutilized limit for reallocation to other PIFIs. No PIFI shall be authorized to sanction financing with a view to merely utilize the limit under the Scheme.

1.4. Category I of the Facility:

1.4.1. Eligibility Criteria under Category I:

- 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/ Authorities (Federal or Provincial), in compliance with the prevalent Renewable Energy Policy of the Government of Pakistan.
- iii. SBP's Mudarabah investment will be made up-to 100% of total financing of an eligible RE project of upto 20 MW and up-to 50% of total financing of an eligible RE Project of more than 20 MW, subject to adherence of other rules & regulations.
- iv. However, maximum Mudarabah investment allowed under the Facility cannot be more than Rs. 6 billion for a single Renewable Energy Project. For financing requirements within this limit, PIFIs may enter into consortium arrangements.

1.4.2. Period of Financing and Redemption/ Repayment of Financing:

- i. Financing of PIFI 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, PIFIs shall clearly mention the "grace period" in the redemption/ repayment schedules to be submitted to the concerned office of SBP BSC at the time of requesting Mudarabah investment.
- ii. The retirement of financial obligations/ redemption under this Category shall be made by the customer on quarterly or half yearly basis after prescribed grace period, if any.
- iii. The profit/ return/ rental shall, however, be payable on quarterly basis.

1.5. Category II of the Facility:

1.5.1. Eligibility Criteria:

- i. Financing shall be available to domestic, agricultural, commercial or industrial customers who are desirous of installing renewable energy source based projects/ solutions of up-to 1 MW for generation of electricity. A customer may install more than one renewable energy source based project/ solution of up-to 1 MW each with the condition that such projects/ solutions 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).

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- iii. SBP's Mudarabah investment will be made up-to 100% of financing provided by PIFIs to the eligible customers subject to adherence of other rules & regulations.
- iv. However, maximum consolidated Mudarabah investment allowed under the Facility cannot be more than Rs. 400 million for a single customer.

1.5.2. Period of Financing and Redemption/ Repayment of Financing:

- i. The financing under this Facility shall be available for a maximum period of 10 years including maximum grace period of three (03) months.
- ii. The retirement of financial obligations/ redemption under this Category shall be made by the customer on monthly, quarterly or half yearly basis.
- iii. The profit/ return/ rental shall, however, be payable on monthly or quarterly basis.

1.6. Category III of the Facility:

1.6.1. Eligibility Criteria under Category III:

- i. The financing under this Category shall be available to vendors/ suppliers of renewable energy equipment certified under AEDB Certification Regulations 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) before applying for the facility.
- iii. The financing shall be utilized by vendors/ suppliers for their onward leasing out 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. 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/ supplier 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. SBP's Mudarabah investment will be made up-to 100% of financing provided by PIFIs to the eligible customers (vendors/ suppliers), subject to adherence of other rules & regulations.
- vi. The consolidated financing of a single vendor/ supplier under this Facility shall not exceed Rs. 1 billion. For financing requirements within this limit, PIFIs may enter into consortium arrangements.
- vii. The vendor/ supplier shall avail the Facility separately for each client, being the ultimate owner/ user of installed RE equipment.
- viii. The PIFIs shall disburse funds to the vendor/ supplier, within consolidated financing limit of that vendor/ supplier, subject to completion of pre-disbursement formalities. Any disbursement in excess

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of consolidated financing limit of that vendor/ supplier shall not be eligible for SBP's Mudarabah investment and shall be subject to immediate recovery from PIFI.

1.6.2. Period of Financing and Redemption/ Repayment of Financing:

- i. The disbursements to the vendor/ supplier for a single client (ultimate owner/ user) shall constitute a separate financing with its own repayment/ redemption schedule not exceeding ten (10) years from the date of first disbursement to vendor/ supplier for that particular client (see Section 1.11.1. (iv)).
- ii. The retirement of financial obligations/ redemption under this Category shall be made by the vendor/ supplier on monthly, quarterly or half yearly basis.
- iii. The profit/ return/ rental shall, however, be payable on monthly or quarterly basis.

1.7. Period of Mudarabah Investment:

- i. The Mudarabah investment made with the PIFIs shall mature on the due date agreed with SBP. Mudarabah investment redemption schedule shall be prepared based on the retirement of financial obligation/ redemption by each customer under the Facility. In case of Category III, the financing bank shall require separate schedule for redemption/ retirement of financial obligation in respect of each ultimate owner/ user from its customer (i.e. vendor/ supplier).
- ii. SBP is authorized to deduct outstanding balance of its Mudarabah investment in the general pool, determinable as per "Instructions for Profit & Loss Distribution and Pool Management for Islamic Banking Institutions" issued vide IBD Circular No. 3 dated November 19, 2012, as amended from time to time. SBP shall recover such amount from the accounts of PIFI maintained with the respective offices of the SBP BSC.
- iii. In case a customer pays the financing amount or its installment, in part or in full, before the due date(s), SBP's share in the general pool will be redeemed equal to the payments so received from customer. PIFIs shall adjust the financing amount received from the customer by purchasing the SBP's proportionate share in the general pool immediately, but not later than three (03) working days, from the concerned office of SBP BSC, failing which the SBP shall also be given the profit, as per the actual profit of the general pool, for the number of days this proportionate share is not purchased by the PIFI. However, no penalty shall be charged either from PIFI or its customer in case of payment of financing amount or installment, in part or in full, before due date.

1.8. Disbursement of Funds from PIFI to Customers/ Projects:

- i. The financing shall be allowed, subject to eligibility criteria given above, against a single or multiple underlying transaction(s), designed on the basis of permissible Islamic modes of finance (specified under Section E of Annexure I. of IBD Circular No.02 of 2008, as amended from time to time), and under the product/ transaction structure approved by the Shariah Board of concerned PIFI.
- ii. In case of consortium/ syndication, the whole process, starting from the structuring of the transaction till its completion, should be duly approved and monitored by Shariah Board of lead arranger/ Shariah Committee formed for consortium/ syndication, as the case may be.

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- iii. The PIFIs shall reasonably ensure fulfillment of the pre-disbursement formalities by the customer through due diligence in accordance with their own internal arrangements to avoid mis-utilization of the Facility through over invoicing, etc. while extending financing facilities to the customers. PIFIs shall comply with all relevant regulations issued by SBP from time to time regarding the mode under which the financing has been extended.
- iv. The PIFIs shall undertake due diligence process in accordance with their respective financing policies before sanctioning the facility subject to the respective prudential regulations prescribed by the SBP for each type of customer.
- v. PIFIs shall at all times remain within the limits assigned to them for disbursements/ financing under the Scheme in a given financial year. Facilities should not be sanctioned in favor of customers in anticipation of sanction of limits by the SBP.
- vi. The PIFIs shall adhere to their internal credit risk rating policies developed in compliance with SBP's Guidelines on Internal Credit Risk Rating Systems issued vide BSD Circular No. 8 of 2007. In case the customer of PIFI is a corporate/ commercial or industrial entity, the same should have minimum rating of 4 as per the above Circular.
- vii. The PIFI undertakes to advise SBP promptly of any change in the position of any customer provided with finances by the PIFI under the Scheme.

1.9. Disclosure in Annual Audited Accounts:

- i. The external auditors of the PIFI shall, during the course of annual audit, verify compliance of the PIFI with the terms and conditions of the Scheme, specially relating to SBP's share in Mudarabah investment, profit calculations and payments made on SBP's Mudarabah investment. A 'Certificate of Compliance' shall be issued to the PIFI and a copy thereof should be sent by PIFI to the SBP (concerned department).
- ii. These facts shall be disclosed separately under appropriate heads, in the annual audited financial statements of the PIFI, the aggregate amount of Mudarabah investment made by SBP in such PIFI, as may be outstanding and payable by it, on the date of the preparation of its financial statements.

1.10. Grant of Mudarabah Investment:

SBP shall make Mudarabah investments in PIFIs on the basis of Section 17 (6B) of the SBP Act 1956.

1.11. Shariah Structure of the Facility:

1.11.1. Disbursement of Funds from SBP to the PIFI under Mudarabah:

- i. After making disbursement(s) on account of any of the categories of the Facility, PIFI shall approach concerned office of SBP BSC for obtaining Mudarabah investment to the extent of amount disbursed/ financed on case to case basis for each customer/ project.
- ii. The Mudarabah investment by SBP shall be made on the basis of certification by the Internal Audit of PIFI with regard to confirmation that the financing is within the terms and conditions laid down in

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respective Category of the Facility. A copy of the said Internal Audit Certificate shall be submitted to the concerned office of SBP BSC (Bank) along-with Mudarabah Investment Request Form at the time of availing Mudarabah investment for the first time for a customer while copies of certificates in respect of subsequent disbursements to the same customer may be submitted at the time of availing last Mudarabah investment.

- iii. The SBP BSC office shall provide Mudarabah investment on receipt of request from PIFIs submitted through duly filled-in prescribed documents i.e.
 - a. IFRE: 2 – Mudarabah Investment Request Form
 - b. IFRE: 3 – Debit Authority
 - c. IFRE: 4 – Copy of Demand Promissory Note (by the customer)
 - d. IFRE: 5 – Undertaking to be Submitted by the customer
 - e. Schedule of redemption/ retirement of financial obligation by the customer to the financing bank
 - f. Copy of Internal Audit's certificate obtained in terms of Section 1.11.1 (ii) above.
 - g. Copy of Financing Agreement between PIFI and customer (inclusive of redemption schedule).
 - h. Any other document(s), advised by SBP, from time to time.
- iv. For availing Mudarabah investment under Category III, the PIFI shall take following documents from its customer to further submit to the relevant SBP BSC, in addition to documents specified under Section 1.11.1 (iii) above:
 - a. Copy of Contract between vendor/ supplier and the ultimate owner/ user along with schedule of payment.
 - b. In case of lease, proof of vendor/ supplier to have received Token Money of not less than 20% of total installation price from the ultimate owner/ user.
 - c. In case of energy sale agreement, confirmation of security deposit by ultimate owner/ user equivalent to expected average three months electricity bill in an investment account in the PIFI.
 - d. Copy of undertaking of ultimate owner/ user to route his payments of lease rentals/ energy bills through the PIFI.
 - e. Copy of Tripartite agreement creating security charge of PIFI on the RE equipment installed.
 - f. Copies of approvals of all relevant government departments/ agencies, including issuance of license by NEPRA and approval/ no objection of relevant distribution company.
 - g. Summary of previously availed disbursements and cushion available within consolidated financing limit (in line with requirements as specified under Section 1.6.1 (viii)).
- v. Any disbursement(s) of a PIFI to its customer in the absence of valid financing limit at the time of such disbursement(s) shall not be eligible for SBP Mudarabah investment under this Facility.
- vi. PIFI shall approach relevant SBP BSC for Mudarabah investment at the earliest, not later than four (04) weeks after disbursement of financing to the customer.

1.11.2. Investments being part of the General Pool of Assets of PIFI:

The funds obtained from SBP shall be part of the PIFI's general pool and thus shall be subject to the risks and rewards of the pool's assets like other depositors of the pool.

1.11.3. Expected Return on Financing and Mudarabah investment:

- i. The expected rate of return/ profit/ rentals on financing provided by the PIFIs to their customers shall not exceed rates announced by SBP on similar refinance facilities from time to time.
- ii. Further, SBP expects profit rate/ return on its Mudarabah investments with PIFIs to be close to its return on such type of refinance facilities.
- iii. The expected rate of return on financing once fixed shall remain locked-in for the entire duration of the financing, provided that the customers continue to pay all scheduled amounts at the respective due dates. In case the customer(s) fails to make payment of the amount of installment as per the original payment schedule, provisions of the late payments as stipulated in the underlying financing agreement with the customer shall apply for the overdue period besides taking other actions to recover the same as per its approved policies for recovery in similar cases.
- iv. In cases where the financing amount has not been disbursed in full during the validity of an applicable rate, the un-disbursed amount shall attract the new expected rate of return applicable from the date of disbursement by the PIFI.

1.11.4. Allocation and Distribution of Profit/ Loss:

- i. SBP's investment in the general pool, under both the categories shall be assigned profit sharing ratio and weightages keeping in view SBP's expected rate of return as well as PIFI's policy and practice for such type of depositors in the general pool.
- ii. The weightages shall be used to calculate profits on the SBP investments under the Facility.
- iii. At the end of every month, but not later than the 7th working day of the following month, after calculating actual profit of the general pool by the PIFI, SBP's share of profit will be credited into a separate non-remunerative account held with the PIFI in the general pool. The profit accumulated in this account shall be transferred to SBP on quarterly basis, including during the grace period, if any, within 7 working days of completion of each quarter. No profit shall accrue or be applicable on the amount outstanding in the account.
- iv. The determination of profit will be made in line with "Instructions for Profit & Loss Distribution and Pool Management for Islamic Banking Institutions (IBIs)" issued vide IBD Circular No.3 dated November 19, 2012, as amended from time to time.

1.11.5. Islamic Financing Facility for Renewable Energy Reserve Fund – (RF-IFRE):

SBP shall create a Reserve Fund (RF) at SBP BSC from its share in profits of the Scheme. If in any quarter, SBP's share in profit is more than the expected return; such excess profit shall be transferred to the RF-IFRE. The PIFIs shall advise the SBP BSC offices accordingly, within 7 working days of close of quarter, by issuing separate advice for transfer of excess amount into 'RF-IFRE'.

1.11.6. Loss Sharing:

- i. If at any time the general pool of a PIFI suffers a loss, it shall be borne by all the depositors/ fund providers of the general pool, including SBP, to the extent of their respective ratios of investments in the general pool.
- ii. The PIFI will be responsible for any loss incurred to SBP under this Facility, if the said loss is subsequently proven to have been caused on account of negligence/ mis-statement and/ or misrepresentation, on the part of PIFI, determined by internal auditor, external auditor and/ or SBP inspection team.

2. Regulatory Instructions:

2.1. Risk Assessment:

- i. Each PIFI shall be required to have:
 - a. Well defined policies and established procedures for appraisal of projects to be financed under the Facility, particularly with regard to their technical and financial viability.
 - b. Robust internal controls to protect depositors'/ rab-ul-maals' and PIFI's interest and to fulfill all requirements/ conditions of financings including collateral requirements to mitigate the risk of customers' failure to honor their commitments. The risk assessment policy should cover varying business requirements and provide well-defined methodologies for assessing the financial fitness of prospective customers and project.
 - c. PIFIs shall undertake necessary due diligence process as per their financing policies, approved by the Shariah Board and Board of Directors, before sanctioning the financing facility under the Scheme and ensure compliance with all rules, regulations, including applicable Prudential Regulations, and SBP instructions. Further, compliance with SBP's instructions/ regulations/ policy related to foreign exchange must be ensured. Furthermore, the sanction/ approval of the financing shall be linked to the risk profile of the potential customers as per PIFI's risk measurement/ assessment policies.

2.2. Penalties:

- i. SBP, in its capacity as the regulator, shall have the right to appoint an independent consultant to verify that the conditions of the Scheme are properly fulfilled/ complied with by PIFI.
- ii. In case the report of the consultant points out irregularities on the part of the PIFI or the customer, SBP reserves the right to redeem the amount of Mudarabah investment made with the PIFI along with penalty at the rate prescribed in Section 2.2 (vi) below including the cost of such verification.
- iii. It will be the responsibility of the PIFIs to secure their interest and the interest of depositors/ investors in this regard, however, in no case fine imposed on PIFI due to its negligence shall be passed on to the customer. In case, any PIFI passes on the fine to the customer, the PIFI shall be under obligation to justify the same to ensure that the fine is not passed on to the customer merely on the strength of the action of SBP.

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- iv. Notwithstanding anything contained in Sections 2.2 (i, ii & iii) above, in case the customer(s) fails to repay/ pay the amount of installment as per the original repayment/ payment schedule, the delay would trigger collection of charity amount from the customer as per the undertaking given by the customer. Any charity amount collected by the PIFI from customers relating to the delay in payment of financings under the Facility will be given by the PIFI in charity as per SBP's instructions on the matter. However, in some modes of financing the PIFI has a right, under Shariah principles, to take additional amount in cases of delays and defaults, e.g. as rent on un-purchased share in underlying asset. The same shall be subject to prior approval of PIFI's Shariah Board.
- v. The customers shall continue to remain liable for payment of fines/ penalties on account of their non-performance/ non-compliance to the requirements of the Scheme. Such fines/ penalties as and when recovered, from the customers shall invariably be passed on to SBP by the concerned PIFI. The failure of the PIFIs on this account shall be construed as their non-compliance of the Scheme, and would attract punitive measures as prescribed by SBP.
- vi. In case of violation of the terms & conditions laid down in the Facility, SBP shall reserve the right to recover the outstanding Mudarabah investment with the PIFI, or part thereof along with fine at the rate of Paisa 60 per day per Rs. 1000/- or part thereof and the cost of verification as stated in Sections 2.2 (i & ii) above.

2.3. Other Terms & Conditions:

2.3.1. Terms and Conditions specific to Category I

- i. PIFIs may ensure that firm commitments for the portion of funding not to be financed by SBP (in the form of equity, other bank financings etc.) are available for the project being financed by them under the Facility, 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 PIFI. State Bank of Pakistan would, however, not insist on fulfillment of this condition by a specified mode but would let the PIFI to satisfy itself in this regard.
- ii. PIFIs shall ensure that disbursements are not made to the customers directly; instead payments are made to the manufacturers/ suppliers/ contractors in line with underlying contracts and construction milestones.
- iii. PIFIs 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.
- iv. 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 PIFIs in excess of 20% shall be eligible for Mudarabah Investment along with final scheduled disbursement of the project/ customer to the supplier/ contractor.
- v. PIFIs shall not take more than three months in evaluating an application for financing under this Facility from the date of receipt of complete information from the customer.

2.3.2. Terms and Conditions specific to Category II

- i. PIFIs shall ensure that disbursements are not made to the customers directly; instead payments are made to the manufacturers/ suppliers/ contractors in line with underlying contracts and construction milestones.
- ii. PIFIs 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 PIFIs in excess of 20% shall be eligible for Mudarabah Investment upon completion of the project.
- iv. PIFIs 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 customer.

2.3.3. Terms and Conditions specific to Category III

- i. The vendors/ suppliers shall, on quarterly basis, submit Asset Health Report to the PIFIs.
- ii. The PIFIs shall ensure that contracts/ agreements between vendors/ suppliers and ultimate owners/ users as well as those of vendors/ suppliers with their suppliers/ manufacturers are made on arms length basis in order to avoid any conflict of interest.
- iii. PIFIs 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 customer.
- iv. 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 (as given in Section 1.6.1.(iii) above).

2.3.4. Terms and Conditions applicable to all categories

- i. The PIFIs shall submit their operations/ process manual of the Scheme to the IH&SMEFD of SBP for information and review before launching the Scheme/ seeking limits and shall reasonably address the observations, if any, raised by the department.
- ii. PIFIs shall ensure that financing proceeds are used exclusively for the purpose it is approved. They shall also ensure that customer has fulfilled pre-disbursement formalities, through due diligence as per their own internal arrangements to avoid malpractices and mis-utilization of funds under the Facility.
- iii. Besides applying due diligence process as per their financing policies, standards/ appropriate procedures in such types of financing, PIFI may also impose any specific condition(s) considered appropriate by them, subject to its Shariah Board's approval, in such type of transactions, while sanctioning finance under the Facility to protect their interests.

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- iv. PIFIs shall provide financing facilities to the prospective customers as per their financing policies duly approved by their Board of Directors and Shariah Board. Further, financing shall be subject to compliance with all rules, regulations and instructions, including Shariah compliance related instructions etc. as prescribed by the State Bank, from time to time. PIFIs shall also ensure compliance, in all their financings, to the Shariah principles, process flows and product structure etc. as approved by their respective Shariah Board, in line with SBP's instructions and guidelines, issued from time to time.
- v. Financings under the Facility shall be checked/ verified by SBP's Banking Inspection Department (BID) during inspection of the PIFI to ensure that the same has been allowed as per the terms and conditions of the Scheme.
- vi. In case of early repayment/ payment of principal/ installments or rescheduling of financing, the concerned PIFI shall be required to submit revised repayment schedule of that financing.
- vii. Captive power projects which have already availed financing facilities under any of SBP's long-term financing facilities/ schemes shall not be eligible for financing under this Scheme.
- viii. Fixed term financings which have been extended prior to the announcement of this Facility shall not be eligible for this Facility.
- ix. PIFIs should ensure adequate training arrangements for the staff/ officials handling cases under the Scheme with a view to ensure compliance with internal rules/ regulations/ procedures and those prescribed by SBP.
- x. Second-hand machinery/ equipment shall not be eligible under the Facility.
- xi. Acquisition of land shall not be eligible for financing under the Facility.
- xii. For a customer under any Category, the PIFI may structure financing as per their own terms & conditions for any amount exceeding the limit specified under that Category.
- xiii. Where the request of a prospective customer for financing under the Facility is declined, the PIFI will explicitly apprise the reasons for rejecting the application to the customer.
- xiv. Financing 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.
