



Temporary Economic Refinance Facility (TERF)

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Temporary Economic Refinance Facility (TERF)

1. Scope and Eligibility:

- i) Under this facility, Participating Financial Institutions (PFIs) will provide long term local currency finance for imported and locally manufactured new plant and machinery to be used for setting-up of new projects in all sectors across the board except power sector where State Bank of Pakistan (SBPP) Financing Scheme for Renewable Energy already exists.
- ii) Maximum borrowing limit for a single project/production unit will be Rs 5 billion. The financing bank/DFI may structure financing as per own terms & conditions for any amount exceeding this limit.
- iii) The Facility will expire on March 31, 2021. All LCs established after announcement of the Facility till March 31, 2021 shall be eligible for financing.

2. Rates:

- a) SBP will provide refinance to the PFI at 3% p.a., whereas, PFIs shall be permitted to charge a maximum spread of 4% p.a. from the borrowers, availing finance under the facility.
- b) The markup rate once fixed shall remain locked-in for the entire duration of the loan, provided the borrowers continue to repay all scheduled installments at the respective due dates.
- c) In cases where the loan amount has not been 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 PFI.

3. Period of Financing and its Repayment:

- i) Financing shall be available for a maximum period of 10 years including a maximum grace period of 2 years.
- ii) 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 PFI, at the rate specified by the State Bank.
- iii) The refinance granted by SBP-BSC 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 SBP BSC. In case the borrowers fail to make repayment of the amount of installment as per the original repayment schedule, the PFI will be entitled to charge normal rate of mark up on such overdue principal amount besides taking other actions to recover the same. In no case, the liability of banks/DFIs to pay/repay to SBP BSC the principal amount of refinance, or markup 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.
- iv) Mark-up shall be paid on quarterly basis.



4. Sanctioning and Disbursement of Loans:

- i) All commercial banks and Development Finance Institutions (DFIs) shall be Participating Financial Institutions (PFIs) under the Facility.
- ii) Limits shall be allocated to individual banks/DFIs as PFIs.

5. Grant of Refinance:

- i) SBP shall provide refinance to each PFI on service charges (mark-up) basis in terms of Section 17 (2) (d) read with section 22 of SBP Act 1956.
- ii) Refinance shall be allowed to the Banks/DFIs by SBP BSC on submission of documents as may be required by SBP.

6. Risk Assessment:

- a) Each PFI shall be required to have:
 - i) policy and established procedures for appraisal of projects to be financed under the facility, particularly with regard to their technical and financial viability;
 - ii) good internal controls to protect their interest and to fulfill all requirements / conditions of project financing including collateral requirements to mitigate the risk of borrowers' failure to honor their commitments.
- b) PFI shall undertake necessary due diligence process as per their lending policies before sanction of the loan under the facility, which shall invariably be subjected to the applicable Prudential Regulations as prescribed by SBP for each type of borrower. Further, in case of imported machinery, PFIs shall also have to ensure compliance with rules & regulations under Chapter XIII of Foreign Exchange Manual.
- c) Sponsor will be required to contribute their equity share in an escrow account maintained with the PFI. The proceeds in the said account shall be used by the sponsors only for setting up of the project/payment to the supplier etc.; representing his equity share in the project. However, where sponsor(s) of the project have already invested their entire share of equity in the project in the form of land, construction of building etc., the same shall be treated as 'equity' of the sponsor and the condition of maintaining an escrow account may not be required provided overall debt/equity ratio is met. The lending PFI should place a certificate on record in this regard in the relevant credit file for subsequent inspection by SBP's Banking Inspection Department (BID).
- d) PFIs shall ensure that the working capital facilities in respect of the new project are adequately secured/agreed to, preferably by a financing PFI or one of the member of the consortium, prior to the approval of financing under the facility, so that project does not suffer due to lack of working capital facilities in future.

7. Other Terms and Conditions:

- i) The cost of insurance, transit insurance, erection and commissioning charges and other incidentals (including transportation charges, in case of locally manufactured machinery) etc.; shall not be financed under the facility.
- ii) Banks/DFIs shall not take more than one month in evaluating an application for financing under the Facility from the date of receipt of complete information from the borrower. Where the request is declined, the PFI 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 Facility.
- iv) Financing under the facility shall be available against LCs in case of imported and ILCs in case of locally manufactured plant & machinery.
- v) Financing can be provided through either a single bank or a consortium of banks.
- vi) Second-hand machinery shall not be eligible under the facility.
- vii) Financing under the facility 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 Facility.
- viii) Financing shall not be available for the purpose of acquisition of land, construction of building etc.
- ix) 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.
- x) Disbursements by banks/DFIs should not be made to the borrower directly; instead, payments shall be made to the manufacturers / suppliers of the plant & machinery.
- xi) Where a PFI considers the requests of their borrowers for rescheduling of loans granted under the facility, the principal amount of refinance shall only be rescheduled in a way that total tenor of refinancing under the facility 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.

8. Fines:

- i) In case of violation of the terms & conditions of the facility, the SBP shall reserve the right to recover the amount of refinance granted to the PFI along-with fine at the rate of Paisa 70 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 PFI fails to repay the same SBP BSC within three working days, late adjustment fine will be charged from the concerned PFI at the rate of Paisa 70 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.
