



Islamic Refinance Facility for Combating COVID – 19 (IRFCC)

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Islamic Refinance Facility for Combating COVID – 19 (IRFCC)

Islamic Refinance Facility for Combating COVID – 19 (IRFCC) is being offered to Participating Islamic Banking Institutions (PIBIs). State Bank of Pakistan (SBP) shall make mudarabah investment in IRFCC under section 17 (6B) of the SBP Act, 1956 (the “SBP Act”). SBP will act as Rab-ul-Maal by providing mudarabah investment facility to the PIBIs, in the form of investment in the PIBI’s general pool, and the PIBI shall act as the Mudarib of general pool. The exposure of SBP under the scheme shall be on all assets of the PIBI’s general pool to the extent of SBP’s investment in general pool, and therefore shall not be limited to the assets financed under the scheme.

The document comprises of the following two main sections:

- (1) The Facility; which covers (i) Scope and eligibility, (ii) Sanction of limits and disbursement of refinance (iii) Expected return on financing (iv) Period of investment & its repayments and (v) Sanctioning and disbursement of funds from PIBI to customers
- (2) Regulatory Instruction; which cover (i) Risk assessment (ii) Fines/Penalties and (iii) General Terms & conditions

1. The Facility

i. Scope and Eligibility

- a) Under Islamic Refinance Facility for Combating COVID – 19 (IRFCC), PIBIs can provide long term local currency finance for imported and locally manufactured medical equipment to be used for combating COVID – 19 (see Schedule 1 for illustrative list of equipment eligible for financing under this facility). The facility will be available to all the Hospitals and Medical Centers registered with respective provincial healthcare commission/authorities and engaged in controlling and eradication of COVID – 19. In case of isolation ward development, up to 60% cost of entire civil works will be financed under the facility.
- b) Financing under the facility will be available to the extent of C & F value of the imported new medical equipment and ex-factory/showroom price of the new locally manufactured medical equipment to be purchased by the eligible customers.
- c) The customers may also purchase imported equipment from the commercial importers or authorized dealers of the foreign manufacturers in Pakistan and authorized suppliers in case of locally manufactured medical equipment.
- d) Maximum financing of banks to a customer shall not exceed Rs 200 million under IRFCC. However, banks may provide financing facilities as per their credit policies over and above the said maximum limit from their own sources subject to adherence of applicable Prudential Regulations.
- e) The IRFCC will expire on 30th September, 2020. The facility will remain valid against all LCs/ILCs established from the date of announcement of the facility till September 30, 2020.



ii. Sanction of Limits and Disbursement of Refinance

- a) Limits shall be allocated to individual banks.
- b) After disbursements on account of facility to the customer, the PIBI can approach SBP BSC for obtaining mudarabah investment to the extent of the amount disbursed/financed to the customer under the import LC/Inland LC. SBP BSC shall provide refinance within three working days from the date of receipt of request on submission of duly filled in prescribed documents.

iii. Expected Return on Financing

The expected rate of return on financing provided by the PIBI to its customer under the scheme may not exceed rates announced by SBP on similar refinance facilities. Further, SBP expects profit rates/return on its investment close to its return on such type of refinance facilities.

iv. Period of Investment and its Repayment:

- a) The maximum period for which the investment under the scheme may be made shall not be more than five (5) years including a maximum grace period of 06 months.
- b) The retirement of financial obligation/redemption under the scheme shall be made by the customer in equal half yearly/quarterly installments. PIBI shall not be permitted to require customer to pay profit/return/rental service charges at a frequency of less than three months except at the time of early payments/liquidation of financing.
- c) The mudarabah investment made with the PIBIs shall mature on the due date agreed with SBP, and SBP is authorized to deduct outstanding balance of its investment in the general pool 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.
- d) In case, a customer repays the financing amount or its installment, in part or in full, on or before the due date(s), SBP's share in the general pool will be redeemed equal to the payments received from customer. PIBIs shall adjust the financing amount so 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 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 PIBI. However, no penalty shall be charged either from PIBI or its customer in case of payment of financing amount or installment, in part or in full, before due date.

v. Sanctioning and Disbursement of Funds from PIBI to Customers:

- a) PIBI shall not take more than a week in evaluating an application for financing under the facility from the date of receipt of complete information from the customer. Where the request is declined, the PIBI will explicitly apprise the reason for rejecting the application to the prospective customer.
- b) The PIBIs shall undertake due diligence process as per their financing policies before sanction of the facility to protect their interests subject to the respective Prudential Regulations prescribed by the SBP for each type of customer.



- c) PIBIs shall at all times remain within the limits assigned to them for disbursements under the facility. Facilities should not be sanctioned in favour of customers in anticipation of sanction of limits by the SBP.
- d) Disbursements by PIBIs should not be made to the customer directly; instead payments shall be made to the manufacturers / suppliers or foreign seller of the medical equipment through import letter of credit as per payment/delivery schedule agreed to between the manufacturer and the purchaser. Likewise, payment for the locally manufactured medical equipment shall invariably be made through Inland Letter of Credit as per payment/delivery schedule agreed to between the manufacturer and the purchaser.

2. Regulatory Instructions

i. Risk Assessment

- a) Each PIBI shall be required to assess the technical and financial viability of the projects.
- b) PIBIs shall undertake necessary due diligence process as per their financing policies before sanctioning of the financing facility under the scheme, which shall invariably be subjected to the applicable Prudential Regulations as prescribed by SBP for each type of customer. Further, in case of imported equipment, PIBIs shall ensure compliance of rules & regulations under Chapter XIII of Foreign Exchange Manual.

ii. Fines/Penalties

- a) State Bank shall have the right to appoint an independent consultant to verify the use of the refinance under the facility for the purposes spelt out under the facility. In case, the report of the consultant points out irregularity on the part of the financing PIBI or the customer, State Bank reserves the right to recover the amount of refinance granted to the PIBI alongwith fine at the prescribed rate including the cost of such verification. As the PIBIs are expected to fulfill the conditions prescribed by SBP under the facility, fine so recovered shall be absorbed by them. In case, they pass on the fine so recovered to the customer, the PIBI shall be under obligation to justify the same and would not pass it on to the customer merely on the strength of the action of State Bank of Pakistan.
- b) Under IRFCC, fine for any irregularity shall be imposed on the customer or the PIBI as the case may be, depending upon the nature of irregularity. In all cases it shall be recovered through the PIBI who availed refinance. It will be the responsibility of the PIBI to secure its interest in this regard, however, in no case, fine imposed on PIBI due to its negligence shall be passed on to the customer. In case, PIBI pass on the fine so recovered from it to the customer, the PIBI 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 the State Bank of Pakistan.
- c) In case the customers fails to make repayment of the amount of installment as per the original repayment schedule the delay would trigger the collection of charity amount from the customer as per the undertaking given by the customer. Any charity amount collected by the PIBI from customers relating to the delay in payment of financing will be given by the PIBI to charity. Similarly, in case of delay,



the PIBI shall also have the right to recourse to the security of the customer, where such risk management provisions have been adopted to recover the amounts due. In some mode of financing the PIBI has a right to take additional amount in cases of delays and defaults as rent on un-purchased share in underlying asset. The same shall be approved by Shari'ah Board of PIBI.

- d) Where a PIBI has allowed rescheduling of a finance after the approval of its Shari'ah Board, the principal amount of refinance will only be rescheduled so as to be repaid within a maximum period of 5 years from the date of original disbursement. Any rescheduling that allows the customers to avail funding facilities under the facility for a longer period will not be considered for the purpose of this facility and in all such cases the entire financing would be considered to have been repaid within the period of 5 years.
- e) Fine shall be recovered at the following rates:-
 - i. In case of violation of the terms & conditions laid down in the facility, State Bank shall reserve the right to recover the amount of refinance granted to the PIBI alongwith fine at the rate of paisa 60 per day per Rs 1,000/- or part thereof including the cost of such verification.
 - ii. Where the customers of PIBIs repay their obligations in part or in full, whether premature or on due date(s), PIBIs shall repay the amount so received from the customer immediately, but not later than three working days, to SBP BSC, failing which fine for late adjustment of amount will be charged from the PIBI at the rate of paisa 70 per day per Rs. 1,000 or part thereof. The PIBIs would ensure that at no point of time, outstanding amount (principal) repayable to them by their customer and appearing in their books of accounts falls below the outstanding amount of refinance, which they owe to State Bank of Pakistan.

iii. General Terms and Conditions

- a) The cost of takaful/insurance, transit takaful/insurance, erection and commissioning charges and other incidentals (including transportation charges, in case of locally manufactured medical equipment) etc; shall not be financed under the facility.
- b) Financing shall not be provided for any project, where financing under any other SBP refinance scheme has already been provided.
- c) PIBIs shall reasonably ensure fulfillment of the pre-disbursement formalities by the customer through due diligence as per their own internal arrangements to avoid misutilization of the facility through over invoicing, wrong selection of equipment etc.
- d) Disbursement under the facility shall be made by PIBIs after ensuring that all the pre-disbursement formalities have been completed in accordance with the terms of agreement between the PIBIs & customer, and between the supplier / manufacturer and the purchaser / importer of the medical equipment.
- e) PIBIs shall make necessary arrangements to ensure that the amount of refinance availed by them from State Bank and outstanding as on the date of preparation of their financial statements is shown separately in Annual Audited Accounts, under appropriate heads, vis-à-vis their claims (principal amounts only) against their constituent to whom the financial facilities were sanctioned by them.



- f) PIBIs should ensure assignment of Staff for handling cases under the facility and their adequate training with a view to ensure compliance with internal rules / regulations / procedures and those prescribed by SBP.



Schedule-1

Islamic Refinance Facility for Combating COVID – 19 –Illustrative List for the Facility

Only new medical equipment to be used by the Hospitals & Medical Centers as per illustrative list provided below:-

1. Ventilators
2. Testing Equipment and Testing Kits
3. Sterilization Equipment
4. Personal Protective Equipment
5. Surgical protective dresses
6. Surgical Sets
7. Examination beds
8. Oxygen cylinders
9. Oximeters
10. Bed screens & separators
11. Setting up of isolation ward (up to 60% cost of entire civil works)