



Islamic Refinance Scheme for Payment of Wages & Salaries to the Workers and Employees of Business Concerns

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‘Islamic Refinance Scheme for Payment of Wages & Salaries to the Workers and Employees of Business Concerns’

With a view to support businesses to continue payment of wages and salaries to their workers and employees in the aftermath of Corona virus (COVID-19) outbreak, ‘Islamic Refinance Scheme for Payment of Wages & Salaries to the Workers and Employees of Business Concerns’ is being offered to Participating Islamic Banking Institutions (PIBIs). The purpose of this Scheme is to facilitate employers to make timely payments of salaries and wages to their employees by easing cash flow limitations.

Under this Scheme, State Bank of Pakistan (SBP) shall make Mudarabah investment 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) Participating Islamic Banking Institutions (PIBIs) (ii) Scope and eligibility, (iii) Shariah Structure of the Facility covering (a) Sanction of Limits and Disbursement of Funds from SBP to PIBIs under Mudarabah, (b) Investments being Part of the General Pool of Assets of PIBI, (c) Expected Return on Financing and (d) Allocation and Distribution of Profit / Loss, (iv) Maximum Financing Limit, (v) Sanctioning and Disbursement of Funds from PIBI to Customers and (vi) Period of Investment and its repayment.
- (2) Regulatory Instruction; which cover (i) Risk assessment, (ii) Fines/Penalties, (iii) General Terms & conditions and (iv) Expiry of the Scheme.

1. The Facility

1.1 Participating Islamic Banking Institutions (PIBIs)

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 operations under permission of SBP shall be eligible to become Participating Islamic Banking Institutions (PIBIs) to avail financing under the Scheme.

1.2 Scope and Eligibility

- a) Financing shall be available through Islamic banking institutions (IBIs) approved as PIBIs by SBP.
- b) Under ‘Islamic Refinance Scheme for Payment of Wages & Salaries to the Workers and Employees of Business Concerns’, PIBIs can provide local currency finance to existing and/ or new customers of PIBIs with a view to facilitate them to make



payments of salaries and wages of their permanent, contractual, daily wagers as well as outsourced employees.

- c) Government Entities, Public Sector Enterprises (PSEs), Autonomous Bodies (ABs) and Financial Institutions (including banks, DFIs, Non-banking finance companies (NBFCs), insurance and takaful companies, securities depository companies and trustees, securities brokers, clearing houses and stock and commodity exchanges, etc.) are not eligible to avail financing under this Scheme.
- d) The customers of PIBIs availing this facility will undertake not to lay off their workers/employees at least during three months from the date of first disbursement except in case of any disciplinary action. The PIBI will obtain this undertaking in writing from the customer while processing request.
- e) The PIBIs shall give preference to the businesses:
 - that are impacted by Corona virus situation and
 - that are labor intensive
- f) The scheme will be availed by a customer only from one PIBI. In case a customer has multiple relationships with IBIs, the customer will submit its request to the IBI that is managing its payroll.
- g) The PIBIs will not charge any financing processing fee, credit limit fee or prepayment penalties for financing under this Scheme.

1.3 Shariah Structure of the Facility:

1.3.1 Sanction of Limits and Disbursement of Funds from SBP to PIBIs under Mudarabah

- a) The Infrastructure, Housing & SME Finance Department (IH&SMEFD), SBP, Karachi will allocate refinance limits under the Scheme to the banks selected as PIBIs within two working days after the issuance of the Circular.
- b) The PIBIs will make disbursements on account of facility to their customers. The PIBIs will, on weekly basis, submit detail of total financing provided by them under this facility, during the previous week, along with prescribed documents to Chief Manager SBP BSC (Bank) for obtaining Mudarabah investment to the extent of the amount disbursed/financed to the customer.
- c) SBP BSC shall provide refinance within two working days from the date of receipt of request on submission of duly filled in prescribed documents:
 - a. IFRE: 2 – Mudarabah Investment Request Form along with Table 3
 - 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 with table 2
 - f. Any other document(s), advised by SBP, from time to time.
- d) The PIBIs will be required to submit to Director Infrastructure, Housing & SME Finance Department (IH&SMEFD), on weekly basis within three working days, their



utilization status covering number of applications received, number of applications approved for financing during previous week, total amount of financing sanctioned and disbursed during the previous week under the Scheme and amount of refinance outstanding as of close of previous week. State Bank reserves the right to reallocate refinance limits on the basis of utilization by PIBIs.

- e) State Bank reserves the right to reallocate refinance limits on the basis of utilization by PIBIs.
- f) The PIBIs may request for enhancement in their allocation when the limits allocated to them are close to exhaustion.

1.3.2 Investments being Part of the General Pool of Assets of PIBI:

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

1.3.3 Expected Return on Financing

- a) 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.
- b) The customers that are on active tax payers list under the Income Tax Ordinance, 2001 would be eligible for 1% p.a. subsidy on their financing rate which will be deducted from SBP's rate of refinance/ service charges.

1.3.4 Allocation and Distribution of Profit / Loss:

- a) The SBP's investment in the general pool will be assigned profit sharing ratio and weightage keeping in view SBP's expected rate of return as well as PIBI's policy and practice for such type of depositors in the general pool. Such weightages shall be used to calculate profits on SBP investments.
- b) At the end of every month, but not later than the 7th working day of the following month, after calculation of the actual profit of the general pool by the PIBI, SBP's share of profit will be appropriated for credit into a separate non-remunerative account held with the PIBI. The profit accumulated in this account shall be transferred to SBP within 7 working days from the close of quarter. No profit shall accrue or be applicable on the amount standing to the credit of non-remunerative reserve account.
- c) The determination of profit will be made in line with section 2 of "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.
- d) If at any time the general pool of a PIBI suffers a loss, it shall be borne by all the depositors of the general pool, including SBP, to the extent of their respective ratios of investments in the general pool.



1.3.5 WS Scheme Reserve Fund

SBP shall create a Reserve Fund (RF) at SBP-BSC from its share in profits of the scheme. If in any month, SBP's share in profit is more than the expected return; such excess profits shall be transferred to the Reserve Fund; RF-WS Scheme. The PIBIs shall advise the SBP BSC Offices accordingly, within 7 working days of close of quarter, by issuing separate advices for transfer of profit amount into 'Profit Account', and for transfer of excess amount into 'RF-WS Scheme'. If any profits in the subsequent quarter(s) are less than the desired returns, the shortfall in the profit may be made good by withdrawing from the amount lying in the RF-WS Scheme by SBP.

1.4 Maximum Financing Limit:

- a) The scheme will cover payment of wages and salaries for the months from April 2020 to June 2020.
- b) Maximum financing limit of a customer under this scheme will be determined in the following manner:

Category	Wage Bill for 3 months	Financing Limit	Maximum Financing Limit
(1)	(2)	(3)	(4)
A	Less than or equal to Rs. 200 million	100% of actual 3 months wage bill	Rs. 200 million
B	More than Rs. 200 million and less than or equal to Rs. 500 million	Rs. 200 million or 75% of 3 months wage bill, whichever is higher	Rs. 375 million
C	More than Rs. 500 million	Rs. 375 million or 50% of actual 3 months wage bill, whichever is higher	Rs. 500 million

- c) The wage bill for three months will be determined as per the latest available financial statements, preferably audited, at the time of sanctioning of limit.
- d) In case, reasonably current financial statements (i.e. audited financial statements as of June 2019 or later) are not available at the time of financing, PIBI will obtain a certificate from Head of Human Resource or Chief Financial Officer of the business concern for the last 3-months average wages and salary bill.

The PIBIs may, at their discretion, require further information and documents from the customers to satisfy themselves about the size of the payroll.



1.5 Sanctioning and disbursement of funds from PIBI to Customers:

- a) PIBI will provide financing to the customer through the Shariah compliant mode/product approved by its relevant Shari'ah Board.
- b) 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.
- c) A PIBI shall not take more than fifteen (15) working days in evaluating financing application of a customer under the Scheme 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. Where the request is declined, a copy of the rejection letter to the prospective customer will also be forwarded for information to the Director, Off-Site Supervision and Surveillance Department (OSSED) simultaneously.
- d) The PIBIs will make sure that all applications of customers for financing are appropriately recorded, including applications that are declined, at a centralized system in the bank. The PIBIs shall ensure that information and records of applications under the Scheme, including records of applications that are declined along-with reasons of decline, are readily available.
- e) PIBI shall reasonably ensure fulfillment of the pre-disbursement formalities by the Customer in accordance with the terms of agreement between the PIBI and customer.
- f) PIBIs shall synchronize their disbursements for the customers under the Scheme with their normal payment cycles of salaries and wages.
- g) The disbursement under the scheme will be made directly by PIBIs to the bank accounts/branchless banking accounts/mobile wallets of workers and employees of the customers.
- h) In cases, where such accounts of workers and employees are not available and the payment is to be made in cash, the PIBI shall obtain detail of such workers and employees of their customers as per table 1 in annexure-II. Further, the PIBIs will encourage their customers to make arrangements for routing wages and salaries of such workers through their accounts at the earliest. Where needed, the PIBIs will, through their customers, also help and facilitate such workers and employees in opening bank accounts or branchless banking account/mobile wallets, as considered appropriate.
- i) The PIBIs shall ensure that low paid workers of their customers are accommodated first at the time of sanctioning of finance in cases where only part of the payroll is being financed. Likewise, at the time of disbursement, preference will be given to low paid workers.
- j) The PIBIs shall adopt measures to avoid misuse of financing under the Scheme, through such measures as inspections/ audits and randomized interviews/ follow-ups with workers and employees of customers etc.



1.6 Period of Investment and its repayment:

- a) The retirement of financial obligation/redemption (principal amount) by the customer to PIBI will start from January 2021 after disbursement period of 03 months followed by maximum grace period of 06 months.
- b) The retirement of financial obligation/redemption under the scheme shall be made by the customer in 08 equal quarterly installments.
- c) The profit/return/rental amounts shall be payable on quarterly basis. PIBIs shall not be permitted to require their customers to pay the profit/return/rental amounts at a frequency of less than one quarter except at the time of early payments/liquidation of financing.
- d) The PIBI shall provide retirement/ redemption schedule agreed with a customer before the final disbursement under the Scheme to that customer.
- e) 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 on 7th day of due date 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.
- f) In case, a customer pays 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 seven (07) 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.

2. Regulatory Instructions

2.1 Risk Assessment

- a) While establishing the financing limits of eligible customers, the PIBIs shall also account for repayment capacity and credit risk profile of the customers.
- b) The PIBIs shall undertake due diligence process as per their financing policies before sanction of the facility.
- c) Financing under the Scheme shall invariably be subject to compliance with all rules and regulations including Prudential Regulations prescribed by the SBP for each type of customer.
- d) 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.



2.2 General Terms and Conditions

- a) PIBIs shall ensure that financing under the scheme will not cover other employee benefits i.e. bonuses, employee benefit plans, staff retirement benefits, gratuity etc.
- b) PIBIs shall ensure that financing is not used to make payments/adjust the existing financing facilities of the customer.
- c) 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.
- d) PIBIs should ensure assignment of Staff for handling cases under the Scheme and their adequate training with a view to ensure compliance with internal rules / regulations / procedures and those prescribed by SBP.
- e) If any question arises with regard to interpretation of any instructions of the scheme, the decision of SBP shall be final.

2.3 Fines/Penalties

- a) State Bank shall have the right to appoint an independent consultant to verify the use of the refinance for the purposes spelt out under the Scheme. Further, financing under the scheme may be subject to inspection by SBP to ensure that the same has been allowed as per the terms and conditions of the scheme.
- b) In case, the report of the consultant and/ or SBP inspection points out irregularity on the part of the financing PIBI or the customer, State Bank reserves the right to redeem the amount of Mudaraba investment made with the PIBI alongwith fine at the prescribed rate including the cost of such verification.
- c) Under this Scheme, 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 and the interest of depositors/investors 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.
- d) 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.
- 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 redeem the Mudaraba investment made with 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. 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.

2.4 Expiry of the Scheme

The refinance scheme will expire on June 30, 2020 although the PIBIs can disburse financing to pay wages and salaries pertaining to June, 2020 in the month of July, 2020.
