



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

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1. Introduction

With a view to support businesses to continue payment of wages and salaries to their workers and employees in the aftermath corona virus (COVID-19) outbreak, State Bank of Pakistan (SBP) has introduced a temporary **Refinance Scheme for Payment of Wages and Salaries to the Workers and Employees of Business Concerns**. This Scheme is expected to ease cash flow constraints of the employers for timely payment of the wages and salaries to their workers and employees and thereby avoid layoffs.

2. Scope and Eligibility

- a) Refinancing will be available to finance wages and salaries of permanent, contractual, daily wagers as well as outsourced employees of existing as well as new borrowers of banks and DFIs.
- b) 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 borrow under this Scheme.
- c) The borrowers 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 financing banks/ DFIs will obtain this undertaking in writing from the borrower while processing financing request.
- d) The PFIs shall give preference to the businesses:
 - that are impacted by Corona virus situation and
 - that are labor intensive
- e) The scheme will be availed by a borrower only from one PFI. In case a borrower has multiple relationships with banks/DFIs, the borrower will submit its request to the bank that is managing its payroll.
- f) The PFIs will not charge any loan processing fee, credit limit fee or prepayment penalties for loans under this Scheme.

3. Participating Financial Institutions (PFIs)

All banks and DFIs shall be eligible to become Participating Financial Institutions (PFIs) to avail financing under the Scheme.

4. Rate of Service Charges for End Users

- a) The end user markup rate under the Scheme shall be upto 5%.
- b) SBP will provide refinance to PFIs at service charges of 1% p.a. for financing to SME clients, allowing PFIs to charge maximum spread of 4% p.a.
- c) For financing to corporate and commercial borrowers, SBP will provide refinance to PFIs at service charges of 2% p.a., allowing PFIs to charge maximum spread of 3% p.a.
- d) The borrowers that are on active tax payers list under the Income Tax Ordinance, 2001 would be eligible for 1% p.a. subsidy on their mark-up rate which will be deducted from SBP's rate of refinance/ service charges.



- e) SBP shall provide refinance to each PFI on service charge basis in terms of Section 22 read with Section 17 (2) (d) of State Bank of Pakistan Act 1956.

5. Maximum Financing Limit

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

Category	Wage Bill for 3 months	Loan Limit	Maximum Loan 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 wages and salaries 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, PFIs 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 salaries bill.
- e) The PFIs may, at their discretion, require further information and documents from the borrowers to satisfy themselves about the size of the payroll.

6. Sanctioning and Disbursement of Loans:

- a) PFIs shall at all times remain within the limits assigned to them for disbursements under the Scheme. Facilities should not be sanctioned in favour of borrowers in anticipation of sanction of limits by the SBP.
- b) PFIs shall not take more than 15 working days for credit approval process (from the date of receipt of complete information). Where the request is declined, the PFI will explicitly apprise the reason for rejecting the application to the prospective borrower. Where the request is declined, a copy of the rejection letter to the prospective borrower will also be forwarded for information to the Director Off-Site Supervision and Surveillance Department (OSSED) simultaneously.
- c) The PFIs will make sure that all applications for these loans are appropriately recorded, including applications that are declined, at a centralized system in the bank. The PFIs 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.



- d) PFIs shall synchronize their disbursements to the borrowers with their normal payment cycles of wages and salaries.
- e) The disbursement under the Scheme will be made directly to the bank accounts/branchless banking accounts/mobile wallets of the workers and employees of the borrowers.
- f) In cases, where such accounts of workers and employees are not available and the payment is to be made in cash, the financing PFI shall obtain detail of such workers and employees of their borrowers as per table 1 in annexure-II. Further, the PFIs will encourage their borrowers to make arrangements for routing wages and salaries of such workers through their accounts at the earliest. Where needed, the PFIs will, through their borrowers, also help and facilitate such workers and employees in opening bank accounts or branchless banking accounts/mobile wallets, as considered appropriate.
- g) The PFIs shall ensure that low paid workers of their borrowers are accommodated first at the time of sanctioning of loan 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.
- h) The PFIs may also 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 borrowers etc.

7. Period of Financing and its Repayment

- a) The repayment of loan (principal amount) by the borrower will start from January 2021 after disbursement period of three months followed by maximum grace period of 06 months.
- b) The repayment of loan (principal amount) will be made in 8 equal quarterly installments.
- c) Mark up shall be paid on quarterly basis. PFIs shall not be permitted to require borrowers to pay markup/service charges at a frequency of less than a quarter except at the time of pre-payments/liquidation of loan.
- d) The PFI shall provide repayment schedule with the application for grant of finance as per table 2 in annexure-II.
- e) The refinance granted to the PFI shall be recovered within 07 working days after the due date(s) as per the original repayment schedule provided by the PFI, from the account of the PFI maintained with SBP BSC.
- f) In case, a borrower repays the loan amount or its installment, in part or in full, on or before the due date(s), the PFI shall repay the loan amounts so received from the borrower immediately, but not later than 07 working days, to SBPBSC, failing which fine for late adjustment of amount will be charged to the PFI at the prescribed rate by SBP.
- g) In case the borrower fails 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 as are incidental to such defaults. In no case, the liability of PFI to repay to



SBP BSC (Bank) 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 part of the borrowers.

- h) Where a PFI has allowed rescheduling of a loan, the principal amount of refinance will only be rescheduled so as to be repaid on or before end of January, 2023. Any rescheduling that allows the borrower to avail funding facilities under the Scheme for a longer period will not be considered for the purpose of this Scheme and in all such cases the entire loan would be considered to have been repaid latest by end of January 2023. 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. Sanction of Limits and Disbursement of Refinance

- a) The Infrastructure, Housing & SME Finance Department (IH&SMEFD) of State Bank will convey refinance limits to all PFIs within two working days after the issuance of the Circular.
- b) The PFI will, on weekly basis, approach SBP BSC for availing refinance against their disbursements of financing to the borrowers during the previous week along with duly filled in table 3 and as per the documents prescribed in Annexure II.
- 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.
- d) The PFIs may request for enhancement in their allocation when the limits allocated to them are close to exhaustion.
- e) The PFIs 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 PFIs.

9. General Terms and Conditions:

- a) PFIs will conduct their regular credit appraisal and pre and post disbursement formalities for extending credit under the scheme.
- b) While establishing the borrowing limits of eligible borrowers, the PFIs shall also account for repayment capacity and credit risk profile of the borrowers.
- c) All financing under the scheme shall be in adherence to relevant SBP regulations and PFIs' lending policies.
- d) PFIs shall ensure that financing under the scheme will not cover other employee benefits i.e. bonuses, sales incentives, employee benefit plans, staff retirement benefits, gratuity etc.
- e) PFIs shall ensure that financing is not used to make repayments/adjust the existing financing facilities of the borrower.



- f) PFIs 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.
- g) State Bank shall have the right to appoint an independent consultant to verify the use of the refinance under the Scheme 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.
- h) In case, the report of the consultant or SBP inspection points out irregularity on the part of the financing PFI or the borrower, State Bank reserves the right to recover the amount of refinance granted to the PFI alongwith fine at the prescribed rate including the cost of such verification. As the PFIs are expected to fulfill the conditions prescribed by SBP under the Scheme, fine so recovered shall be absorbed by them. In case, they pass on the fine so recovered to the borrower, the PFI shall be under obligation to justify the same and would not pass it on to the borrower merely on the strength of the action of SBP.
- i) The PFI should ensure adequate arrangements including assignment of staff/officials and their training on the Scheme with a view to ensure compliance with internal rules/regulations/procedures and those prescribed by SBP.
- j) If any question arises with regard to interpretation of any instructions of the scheme, the decision of SBP shall be final.

10. Fines for Default

- (i) Under the Scheme, fine for any irregularity shall be imposed on the borrower or the PFI as the case may be, depending upon the nature of irregularity. In all cases, it shall be recovered through the PFI who availed refinance. It will be the responsibility of the PFI to secure its interest in this regard, however, in no case, fine imposed on PFI due to its negligence shall be passed on to the borrower. In case, PFI passes on the fine so recovered from it to the borrower, the PFI shall be under obligation to justify the same to ensure that the fine is not passed on to the borrower merely on the strength of the action of the State Bank of Pakistan.
- (ii) Fine shall be recovered at the following rates:-
 - a. In case of violation of the terms & conditions laid down in the Scheme, State Bank shall reserve the right to recover the amount of refinance granted to the PFI alongwith fine at the rate of paisa 60 per day per Rs. 1,000/- or part thereof including the cost of such verification.
 - b. Where the borrowers of PFIs repay their obligations in part or in full, whether premature or on due date(s), PFIs shall repay the amount so received from the borrower immediately, but not later than 07 working days, to the concerned office of SBPBSC, failing which fine for late adjustment of amount will be charged from the PFI at the rate of paisa 70 per day per Rs. 1,000 or part thereof. The PFIs would ensure that at no point of time, outstanding amount (principal) repayable to them by their borrower and appearing in their books of accounts falls below the outstanding amount of refinance, which they owe to State Bank of Pakistan.



11. Expiry of the Scheme

This Refinance scheme shall expire on June 30, 2020 although the PFIs can disburse loan to pay wages and salaries pertaining to June 2020 in the month of July 2020.
