

Highlights of Refinancing Procedures 2077

Nepal Rastra Bank, on 2077/04/06, issued the Refinancing Procedures 2077 to all Banks & Financial Institutions (BFIs) for them to apply to avail loans under the refinancing facility as announced in the monetary policy. The salient features of the procedures are summarized below:

1. Summary of Refinance

S.N.	Categories	Description	Int. Rate	Qualified Loans
a	Micro, cottage & small enterprises	Loans up to Rs 1.5 million provided to enterprises, trades and businesses run by entrepreneurs themselves	5%	Loans to micro, cottage and small enterprises specified under clause 12(1)
b	Special	Specific privileged sectors - e.g.: business or enterprises run by women entrepreneur or differently able person, export-oriented business & business affected by natural calamities etc.	3%	Loan as specified under clause 12 (2)
c	General	Not included in 1& 2 above	5%	Loans as specified under clause 12 (3)

2. Refinancing period

Refinancing period shall be as follows

- a. For lump sum refinancing loan - Maximum 1 year
- b. For Loan based on customer
 - Borrower related to area highly affected by COVID-19 as prescribed by bank - Maximum 1 year
 - Borrower related to area mild or less affected by COVID-19 as prescribed by bank - 6 months

3. Refinancing Limit

- Refinancing loan to be provided by NRB on lump sum basis by making call by NRB - Rs 50 million per borrower *(Such lump sum amount shall not be more than 70% of total refinancing fund)*
- Refinancing loan to be provided based on borrower – Rs 200 million *(Such lump sum amount shall not be more than 20% of total refinancing fund)*
- Refinancing loan to be provided to D class licensed institutions by making call by NRB – *not more than 10 % of total refinancing fund.*

4. Qualified Loans

Under clause 12(1)

- Loans to micro, cottage and small enterprises specified under clause 12(1).
- Operating enterprises/business obtaining loan up to Rs 1.5 million
- Closed business obtaining up to Rs 1.5 million which were operating before natural disaster or pandemic having future potentiality
- Loans provided to micro, cottage and small entrepreneurs that need to be revived due to natural disasters
- Loans provided to entrepreneurs returning from foreign employment
- Loan provided in agricultural production and processing, animal husbandry, hatchery, fisheries etc.
- Loan provided for production and sale of agricultural tools and equipments,
- Loans disbursed in the areas specified in clauses (a) and (b) of Schedule-4,
- Other micro, cottage & small enterprise loans prescribed by the Bank from time to time.

Under clause 12(2)

- Loans specified under clause 12(2)
- Operating business or enterprises relating to export
- Loan disbursed to low income women, underprivileged group & tribe, business operated by differently able person
- Loan provided to sick industries & area affected by natural disaster.
- Loan provided to those going for foreign employment
- Loan provided in the areas specified by the bank as highly affected by COVID-19

Under clause 12(3)

- Loans specified under clause 12 (3)
- Loans provided to the business or industry related to hydropower projects, agriculture, livestock and fisheries business, industries/ businesses operated by youth returned from abroad, manufacturing industry, tourism industry, construction industry, education, health, communication, entertainment, aviation, public transport, pharmaceutical industry, diagnostic Center, Health Education Institute, Hospital, Garbage Treatment etc.
- Loan disbursed in tourist destination having potentiality but less developed i.e.: Pathibhara, Maipokhari, Bhimeshwar, Kalinchwok, Halesi, Langtang, Swargadwari, Manakamana, Muktinath, Upper Mustang, Mahagadhimai, Janakpurdham, Dhanushadham, Chhinnamasta and Panch Pokhari.
- Loan provided to industries not being able to operate fully due to impact of COVID-19 having potentiality of being operated fully.

5. Unqualified loans

The following loans cannot be refinanced:

- a) Loan such as overdraft, housing, vehicle, household goods, margin, gold & silver, social and loans in personal name for personal purpose are not eligible. However, loan availed for taxi, electric tempo, and self-employment purpose can be considered eligible by the BFIs.
- b) Concessional loans with interest and other subsidy.
- c) Where the ROE is $\geq 20\%$ in the immediate preceding financial year.
- d) Loans provided to cigarette, bidi, cigar, tobacco, gutkha and alcohol & alcohol based industries.
- e) Other loans categorized as ineligible by NRB.

6. Procedures for Refinancing Facility

Class 'A', 'B', 'C', & 'D' Licensed Institutions can apply for the refinancing of loans to Nepal Rastra Bank.

Refinancing procedures for A, B & C class licensed institutions & D class institutions

Procedure for A, B & C class licensed institutions for loan up to Rs 1.5 million for micro, small & cottage industry & up to Rs 50 million for special & general refinancing shall be as follows.

- a) NRB will invite applications from licensed institutions for lump sum refinancing.
- b) Within the time limit specified in the above call, the licensed institutions shall submit an application for refinancing facility for at least five borrowers from each of its branch including the details mentioned in Schedule 1.
- c) Within 1 month of deadline of making application, NRB will decide on refinancing facilities. While approving refinancing facility it can be approved fully or partially.
- d) After approval of lump sum refinancing, monitoring money flow in the market by licensed institute, state of liquidity of the licensed institution etc preparing loan schedule, loan will be provided in different installment.
- e) Before disbursement of lump sum amount necessary documents shall be signed by the authorized person who shall be CCO or higher authority of licensed institution.
- f) After obtaining payment made by the NRB, refinancing loan shall be provided at same interest rate for whole period.

For D class licensed institutions

Refinancing procedure for D class licensed institutions is same as of A, B & C class licensed institutions except for institutions obtaining payment of refinancing loan from NRB shall make adjustment of interest rate reducing interest rate of all borrowers.

For refinancing based on individual borrower

Procedure for refinancing facility based on individual borrower shall be as follows which is provided after making analysis of financial condition of borrower under clause 9 as follows:

1. This refinancing procedure shall be provided to borrower to whom loan up to Rs 2 million is granted as per Clause 12(3)
2. Documents and details to be attached while applying for refinancing facilities are as follows

(A) In order to get refinancing facility, the licensed institution shall submit the application (Schedule 1B) by attaching the following documents related to the customer debt.

 - a) Application for refinancing facility,
 - b) The audited financial statements of the company for the last three financial years,
 - c) Certificate of tax payment or filing of tax return for the last financial year
 - d) Credit information report of company provided by Credit Information Bureau.
 - e) System Generated Customer Liability Report showing fixed interest rate,
 - f) In case of export, related document
 - Document of export & receipt of foreign currency in past years
 - Documents proving export business
 - g) While making application loan category, disbursement date, interest rate etc shall be clearly mentioned along with the annexure 3.
 - h) Information of refinancing facility & duration used by the borrower in previous year
 - i) Self declaration of non use of same facility from other banks
 - j) Short description on contribution made by company in employment & foreign currency & in economy as a whole.

NRB shall ensure following points before providing refinancing facility based on the borrower:

- Whether all financial documents are submitted?
- Whether financial documents submitted to IRD and bank for refinancing facilities matched?
- Whether Debt: equity ratio is as prescribed by NRB?
- Whether business, project turnover or borrower is contributing for economic development of nation?
- Whether refinancing facility is required or not?
- Whether other conditions as prescribed are fulfilled?

7. Responsibilities of BFIs

The BFIs have the following responsibility under this facility:

- a) To process the application as per the prevailing legal boundaries.
- b) To include at least 5 borrowers from each branch while submitting application to NRB.
- c) To select borrowers with low individual income, affected by natural calamities & Covid-19.
- d) To include MSMES using local materials & import substitution.
- e) Individual borrowers to be categorized on natural priority industries using as per Industrial Enterprises Act 2020.
- f) To educate the borrowers of the refinancing facility including interest etc.
- g) To ensure earning of convertible foreign currency in case of special refinancing to export oriented business.




8. Monitoring & inspection of refinancing facility

Monitoring & inspection shall be conducted through:

- a) Regular internal audit of individual BFIs.
- b) The Supervision Department of NRB.
- c) Independently by external auditor for which fees shall be paid by the BFIs.
- d) BFIs to submit 6 monthly reports to Supervision and Regulation Department of NRB.

Disclaimer: The information provided by PKF TR Upadhya & Co. is intended to offer the user general information only and is not intended to replace or serve as substitute for any audit, advisory, tax or other professional advice or service

Contact details

-  +977 4410927
-  trunco@ntc.net.np
-  www.pkf.trunco.com.np

PKF TR Upadhya & Co. is a member firm of the PKF International Limited family of legally independent firms and does not accept any responsibility or liability for the actions or inactions of any individual member or correspondent firm or firms.

PKF TR Upadhya & Co.,
124 Lal Colony Marg,
Lal Durbar, Kathmandu, Nepal