



**STATE BANK OF PAKISTAN
INFRASTRUCTURE, HOUSING & SME FINANCE DEPARTMENT**

**Frequently Asked Questions (FAQs)
SME Asaan Finance (SAAF) Scheme**

Updated on March 18, 2022

1. What is the deadline for submission of Expression of Interest (EOI) under SME Assan Finance (SAAF) Scheme?

Clarification: Interested banks can apply as per EOI to State Bank of Pakistan (SBP) within four weeks from the issuance of SAAF circular. Since the SAAF circular was issued on August 16, 2021, therefore, deadline for submission of EOI is September 14, 2021.

2. Can a client already availing financing from any other bank but not from the participating bank will be considered as New-to-Bank (NTB) for the participating bank?

Clarification: Yes, a client already availing financing from any other bank but not from the Participating bank will be considered as NTB for the participating bank. However, a single SME can avail financing from only one (01) bank under this scheme.

3. As per eligibility criteria all SMEs that are new borrowers of a bank will be eligible. Will existing non-borrowing relationship also be eligible?

Clarification: Yes, non-borrowing relationship (depositors) of participating bank will be eligible to avail financing under SAAF scheme.

4. How banks will ensure that a SME does not avail subject facility from any other participating bank?

Clarification: The banks shall obtain a declaration from the SME that it has not availed financing under SAAF scheme from any other bank.

5. Is there any maximum ceiling for the bid amount in any of the categories or bank can state a minimum & maximum range?

Clarification: There is no ceiling or floor defined and decision will depend upon the bid amount and number of borrowers quoted by banks. Bank will be selected on the basis of following two (02) criteria:-

- i. Total amount of loans disbursed under the scheme; and,
- ii. Total number of borrowers to be on-boarded under the scheme.



In each of the defined category (large bank, medium sized bank, small banks and bank collaborating with Fintech), maximum of two (02) banks would be selected. One, which expresses to disburse **maximum** amount of loans under the scheme and the other, which submits to on-board **highest number of borrowers** during the validity of the scheme. The banks are required to mention a certain amount and certain number of borrowers. Banks cannot provide a range and such an EOI will become inadmissible.

6. Would there be any penalty in case a participating bank is unable to disburse the committed amount or achieve number of borrowers?

Clarification: There will be no penalty in case a participating bank is unable to disburse the committed amount or achieve number of borrowers.

7. Is there any option available to the participating bank where they can disburse higher amounts vis-à-vis the initial plan or disburse less amount in the subsequent years? For instance, if a bank had to disburse Rs.1 billion in year 1 and they have cases of more than Rs.1 billion in the first year or in first year they are able to disburse Rs.800 million and the remaining amount shall be disbursed in the subsequent years.

Clarification: Participating banks are expected to be prudent while submitting the targeted levels of loans to be disbursed and number of borrowers to be on-boarded. SBP will monitor the progress in this respect closely. Therefore, participating banks are expected to achieve the yearly targets of loans disbursement and customer onboarding.

8. Would participating banks be given up to ninety (90) days for the commercial launch of the Scheme?

Clarification: Banks may submit annual targets in their bids in such a way that they have sufficient time for making necessary adjustment in their people, process and technology during first year of the scheme. Hence, specific approval from SBP to allow ninety (90) days for commercial launch of the scheme is not required.

9. Will partly secured loans be eligible under the scheme?

Clarification: This scheme is for collateral free financing to SMEs. Hence, partly secured loans are not eligible under the scheme. The banks may, however, obtain Personal Guarantee (PG) from the borrower.

10. Will leasing of plant, machinery, commercial vehicles and other operating fixed assets be allowed under the scheme?

Clarification: The scheme does not restrict leasing of plant and machinery, commercial vehicles and other operating fixed assets. The bank may extend financing facilities as per its discretion.



11. In case of multiple businesses being owned by the same person, will a loan to a non-borrowing group entity be permissible in the presence of existing loans in the names of other group concerns?

Clarification: One (01) individual owning multiple SME businesses can only avail cumulative financing of upto Rs 10 million under the scheme.

12. What will be the pricing on SAAF loans after four (04) years?

Clarification: After four (04) years, the bank may apply commercial rate on the part of loan that is financed by bank's own funds. To manage operationally, the bank may create separate loan account to charge commercial rate on bank's own source financing portion.

13. The refinance under the scheme is available for 3 + 10 years. Is the portfolio guarantee available only for 4 years?

Clarification: Yes. The portfolio guarantee is available only for the first four (04) years.

14. Whether capital charge will be applicable under the scheme as there is no mention regarding applicability of the capital charge in the documents shared in the circular?

Clarification: Capital charge will be applicable on the banks financing under the scheme. It may be noted that 40% to 60% risk coverage is available from GoP on financing under SAAF. Hence, 0% risk weight will be applicable on portfolio to the extent of available GoP risk coverage.

It may be noted that Banking Policy and Regulations Department (BPRD), vide Para 2(a) of Circular Letter No. 36 of 2020, has provided necessary clarification on treatment of Risk Sharing Facility in Low Cost Housing Finance. Same treatment will be available to the amount / percentage of the loans under SAAF that will be covered with GoP guarantee.

15. What will be the maximum and minimum tenor of financing under the scheme?

Clarification: Maximum or minimum tenor of the financing extended to the borrower will be at the discretion of the participating bank.

16. After three (03) years, the refinance will be repayable by bank in 10 equal yearly installments. Please clarify moratorium/grace period for customer? Is it three (03) years under the scheme?

Clarification: Grace period for the end borrower will be at the discretion of the participating bank.



17. Working Capital /Running finance is of revolving nature so after three (03) years, will the refinance be repayable by bank in 10 equal yearly installments?

Clarification: Tenor of all loans including that of working capital /running finance is to be decided between the bank and the borrower. However, the bank has to decide on loan tenor keeping in view that it has to repay refinance to SBP in 10 equal annual instalments after expiry of the scheme. Irrespective of type of loan, after expiry of three (03) years period of the scheme, the bank will charge subsidized rate of SAAF on the loan portion which is financed from SBP liquidity and commercial rate on loan portion which is financed from bank's own funds.

18. Is short-term finance allowed under the working capital?

Clarification: Yes, bank can offer any short term financing facility including working capital loans to the borrower under SAAF Scheme.

19. Financing under the scheme is extended only to meet the business needs of the borrower. Please clarify if it may include Used/ Brand New/Refurbished Plant, Machinery & Equipment, Used/ Brand New/Refurbished Generators, civil works, purchase of land for factory, offices, shops etc.?

Clarification: Financing under scheme is allowed for new or existing SMEs for their business needs. However, bank at its discretion may provide financing for the purposes as mentioned in the above query.

20. Payment will be made directly to supplier for financing of plant and machinery; however please clarify whether payment for stocks, civil works any type of financing other than plant and machinery can be disbursed in customer account?

Clarification: Bank can make payment for stocks, or any type of financing other than plant and machinery directly in the customer account after receiving purchase invoice from the borrower.

21. Is commercial vehicle along with Add-on allowed in the said scheme under HPA?

Clarification: Yes financing of commercial vehicles under HPA mode may be availed under the scheme. Participating banks may register hypothecation charge on such new assets e.g. vehicles and plant & machinery, which will be purchased from the proceeds of the loans disbursed under the scheme.

22. Is the risk sharing by GoP valid only for four (04) years and subsequently the disbursed loan will not have any risk coverage?

Clarification: Yes, risk sharing by GoP is only valid for four (04) years.



23. If customer loan is disbursed for five (05) years, please clarify whether bank will retain repayment by customer and bank will repay refinance in 10 equal yearly installments?

Clarification: Complete explanation for treatment of periodic repayments received by the participating banks in the portfolio and repayments of refinanced amount to SBP is given in **Appendix-I** of the conventional and Islamic schemes. Irrespective of the loan tenor agreed between the borrower and the bank, the participating bank will repay refinanced amount in ten annual installments as long as the portfolio, on daily product basis, continue to remain at least equal to the required year end amount of that particular year.

If there are accelerated repayments or in the instant question where loan is repayable in five years, the banks will have option to make incremental loans to existing SME borrowers of SAAF or onboard new SME borrowers to ensure that complete portfolio on daily product basis at least equals to the year end amount required for that year.

24. Please clarify whether the mark-up will be paid to SBP on quarterly basis?

Clarification: Yes, banks have to pay mark up to SBP on quarterly basis within seven working days at the end of each calendar quarter. Please refer to SAAF scheme para 8.3 (ii) for further details.

25. In case of working capital loan, the loan is adjusted by the borrower and it takes a month for the customer to utilize the loan. Is there any time period to redeploy adjusted amount?

Clarification: The bank can allow revolving financing facilities under the scheme. Explanation regarding use of SBP refinance during validity of three (03) years and subsequent ten (10) years is given in response to the query # 23 above.

26. Whether Agricultural Financing under PRs for Agriculture may also be considered under the scheme to the eligible agricultural SMEs (e.g., Dairy & Livestock, Poultry, Fisheries, Processing units, Crop farming entities etc.) as per report on "Indicative Credit Limits and Eligible Items for Agricultural Financing" issued vide AC&MFD Circular No. 1 dated 03-01-20?

Clarification: All SMEs engaged in commercial or agricultural businesses will be eligible for financing under the scheme, provided the borrower qualifies as a SME as per the definition prescribed in PRs for SME financing. Such financing will be regulated under PRs for SME financing and parameters of the scheme.

27. If yes as to (26) above, Risk sharing shall be in line with PRs for SME Financing?

Clarification: Risk sharing will be in line with the PRs for SME financing and limit on clean facility prescribed under **SME Regulation R-4** will not be applicable under this scheme.



28. Will provisions of the scheme with respect to clean lending limit have over riding effect over the clean lending limit (R-4) as prescribed in PRs for Agriculture Financing?

Clarification: Financing under SAAF is governed under SBP's SME PRs only. Hence, SBP's Agriculture PRs including clean lending limit permissible under Agriculture PRs will not apply on financing under SAAF scheme.

29. This is a collateral free financing scheme, will hypothecation of the asset being financed be required and accordingly be a subject matter of Secured Transaction Registry (STR)?

Clarification: SAAF is a collateral free financing scheme and participating banks can take Personal Guarantee (PG) of the borrower. Participating bank may accept and register in STR the hypothecation of new assets purchased with the proceeds disbursed under the scheme e.g. stocks/inventory, vehicles and plant & machinery purchased from loans. However, the hypothecation on newly acquired assets through financing under SAAF is not a mandatory condition and depends on terms & conditions mutually agreed between the creditor and the debtor.

30. Can the bank extend secured SME financing facilities to new SME borrowers in the fourth year (i.e. after the expiry of three year period of the scheme), as such loans would not have risk sharing?

Clarification: Yes, the participating bank can extend secured financing facilities to new SME borrowers in the fourth year, as these loans would not be covered under risk sharing facility.

31. Can a bank charge commercial mark-up rate to the borrower in case borrower does not make timely mark-up payments during the three year validity of the scheme?

Clarification. Yes. In case the borrower fails to make repayment of principal/markup as per the agreed dates, the participating bank will be entitled to charge normal rate of mark up on such overdue principal amounts besides taking other actions to recover the same as are incidental to such defaults.

32. As per scheme guidelines, SBP will provide refinance for three years from the launch date of the scheme to participating bank, wherein we seek your clarification regarding the "launch date" which we assume as the commercial launch date by the respective bank, otherwise same shall truncate the refinance period to less than 3-years while also reducing the duration for meeting the committed targets.

Clarification: The scheme was launched on August 16, 2021, however, refinance limits to banks were allocated on October 07, 2021. SBP's letter dated October 07, 2021 clearly mentions that refinance can be availed up to June 30, 2024. It may be noted that refinance limits have been



allocated keeping in view the risk coverage of Government of Pakistan (GOP) which will cover loans disbursed upto June 30, 2024 only.

33. Kindly advise whether the FAQ No. 2 & 3 imply existing financing availed from participating bank as SME in nature, since many eligible borrowers availing consumer/housing finance from participating bank shall stand ineligible for seeking SAAF from said bank.

Clarification: The financing relationship mentioned in FAQ No. 2 & 3 is SME, thus, borrowers availing consumer/housing finance from a participating bank will also be eligible to avail SME financing under SAAF from that bank.

34. FAQ No. 9 states that partly secured loans are not eligible, while FAQ No. 21 & 29 allow securitization of loan through Hypothecation of respective assets to be financed (subject to understanding between Bank & Borrower). Please advise whether mortgages or registration of charges with SECP or STR can be negotiated alike hypothecation & that such loans be covered under SAAF accordingly?

Clarification: As mentioned in FAQ No. 9, the scheme is for collateral free financing to SMEs. Hence, partly secured loans are not eligible under the scheme. FAQ No. 21, allows financing of commercial vehicles under HPA mode and FAQ No. 29 allows participating bank to accept and register in STR, the hypothecation of new assets purchased with the proceeds disbursed under the scheme e.g. stocks/inventory, vehicles and plant & machinery purchased from loans. However, the hypothecation on newly acquired assets through financing under SAAF is not a mandatory condition and depends on terms & conditions mutually agreed between the creditor and the debtor. The mortgages and registration of charges with SECP company registry are not allowed under the scheme.

35. Reference is made to the General Reserve requirement as per SME PRs and its applicability in SAAF. Here, we are of the opinion that the general reserve requirement should be waived as SAAF is backed by GoP's risk coverage.

Clarification: General reserve requirement will be applied on that portion of loan portfolio which is not backed by GoP risk coverage under SAAF scheme.

36. Kindly advise the documents submission frequency for availing refinance as well as the mechanism for submitting the average outstanding portfolio position along with these documents;

- a. SAAF –I- Undertaking by Bank (Assumed as One time submission)
- b. SAAF –II- Demand Promissory Note by Bank (Assumed as One time submission)
- c. SAAF –III- Refinance Application Form by Bank (Assumed as Weekly submission)
- d. SAAF –IV- Undertaking of SME customer on the format (Assumed as Weekly submission)

Clarification: Bank's understanding as mentioned in the points a, b, c and d is correct.



37. Kindly advise whether we can avail loan coverage arrangements under Credit Guarantee Scheme/Credit Guarantee Company or any other credit guarantee arrangements upon lapse of this scheme.

Clarification: After expiry of GOP's risk coverage under SAAF Scheme, the banks may at their own discretion can explore risk coverage from any other credit guarantee arrangements for their outstanding SAAF portfolio.

38. Kindly advise applicability of SME R-4 for loans beyond PKR 5 million, seeking continued limits without collateral coverage after lapse of scheme.

Clarification: After the lapse of SAAF scheme, Regulation SME R-4 regarding clean financing limit will be applicable on fresh SME financing.

39. Kindly advise whether interim enhancement or restoration of an adjusted facility is allowed under the scheme.

Clarification: Yes, the bank's understanding is correct.

40. Given that participating banks have been allocated "Disbursement" targets under the scheme, will each drawdown under revolving lines of credit be considered as incremental disbursement as is being treated in the case of Agriculture Finance?

Clarification: Within approved loan limit, frequent withdrawals and repayments can be made, however, frequent drawdown under revolving lines of credit will not be counted as incremental disbursement under SAAF. In such cases, only the maximum utilized portion of approved loan limit will be reported for disbursement purpose. For example, if a customer has been approved PKR 10 million revolving line of credit and the customer makes frequent drawdown and repayment within the approved limit. During validity of the loan, if the customer at any point of time has availed 98% of the approved limit, then in this case, PKR 9.8 million will be considered as disbursement for reporting purpose to SBP.

41. Can additional / incremental financing secured only to the extent greater than PKR 10 million be provided to SAAF borrowers?

Clarification: Maximum financing, under the SAAF scheme, to a single SME has been capped at PKR 10 million. The bank may provide additional secured financing from their own funds to SAAF borrowers as per applicable SME PRs.

42. Under SBP's SME Prudential Regulations, banks can extend clean financing upto PKR 5 Million. Will clean financing in SAAF be considered under existing PR or such limit will be considered / extended / reported separately?



Clarification: As per para 5 of IH&SMEFD Circular No. 09 of 2021 dated August 16, 2021, limit on clean facility prescribed under Regulation SME R-4 of Prudential Regulations for SME financing will not be applicable on financing by banks under this scheme. Thus, clean financing of upto PKR 10 million can be extended and reported under SAAF.

43. Will SMEs availing non-funded Standby LC / Usance LC / LG lines be also eligible for the financing?

Clarification: As per SBP's SME PRs, both funded and non-funded exposures are considered as borrowing relationship. Hence, SMEs availing non-funded lines will not be eligible for financing under the scheme from their existing bank. However, they can avail funded financing from any other participating bank under SAAF Scheme.

44. Can a bank build portfolio under the scheme partly in collaboration with Fintech and partly on its own criteria?

Clarification: Yes, the understanding of the bank is correct.

45. Please discuss the penalties when a bank fails to deposit quarterly markup of SMEs in time?

Clarification: As per clause 9 (iv) of the scheme, in case of violation of the terms & conditions of the scheme, the State Bank reserves the right to recover the amount of refinance granted to the bank/DFI along-with fine at the rate of Paisa 60 per day per PKR 1,000/- or part thereof for the period of refinance.

46. What is the pricing till re-finance approved by SBP? Can bank charge a commercial rate till refinance is approved?

Clarification: The bank may charge the commercial rate for the interim period till refinance is provided by SBP.

47. Can bank change rate after three years to KIBOR related pricing? We believe the subsidized rate will be applicable till funds from SBP are being utilized, however, once the 10% payback starts over the next 10 years it will be difficult to identify which loan in the portfolio is to be switched to own funds and which will remain on SBP funding.

Clarification: Please refer to FAQ No. 12 according to which after three years, the bank may apply commercial rate on the part of loan that is financed by bank's own funds. To manage operationally, the bank may create separate loan account to charge commercial rate on bank's own source financing portion. In case the bank has received accelerated repayment from the borrowers, the bank may either return the excess amount to SBP or it may re-lend the extra received amount to existing or new SME borrowers.



48. If Non Fund Based facilities are not allowed and an obligor imports a machinery through own sources/contract and requests the Bank to finance this machinery, clarification is required as to whether such machinery can be financed or not under SAAF? If yes, what will be the mode of payment?

Clarification: No. Finance cannot be availed against the machinery already purchased by the obligor through its own sources.

49. How many years old machinery/vehicle is allowed for financing under this scheme?

Clarification: No restriction from SBP, bank may finance as per its own policy

50. Is Balance Transfer Facility/ Swapping allowed under this scheme?

Clarification: No.

51. Is imported Machinery and Vehicles allowed under SAAF scheme?

Clarification: Imported machinery may be financed by the bank, however, imported vehicles are not allowed

52. Whether Cash Finance Facility against pledge of stock is allowed under the scheme to fulfil requirements of the borrower?

Clarification: No since pledge is a collateral and SAAF is a collateral free financing scheme.

53. Whether startup ventures are to be defined as new businesses?

Clarification: Yes.

54. SMEs already availing loan from banks against collaterals can avail this facility by redeeming their respective collaterals?

Clarification: Financing under SAAF is not allowed merely for redeeming of borrowers collateral against existing loans.

55. Whether any refinance limit bifurcation to participating bank in percentage to SE or ME is applicable or it is across the board without any discrimination.

Clarification: There is no such bifurcation prescribed by SBP.

56. If the participating bank does not allow grace period in repayment, at what frequency repayment can be demanded from the Obligor given the bank has to pay mark-up on quarterly basis to SBP?



Clarification: The repayment may be decided mutually between the bank and the borrower, however, the bank will have to pay markup on SBP's refinance availed on quarterly basis.

57. Is lease finance for vehicles (where vehicles are registered in bank's name) allowed under SAAF?

Clarification: Yes. However, financing for only locally manufactured vehicles is allowed.

58. Under the scheme, SBP will provide time bound refinancing for three years to the banks and risk coverage will be valid for a period of four years in order to cover loans extended during third year of the scheme. Now for instance, if a bank is sanctioning term loan to a borrower in second or third year of the scheme, does the maximum tenor of the term loan need to be necessarily aligned with expiry of the scheme?

Clarification: No.

59. Is fully secured Lease of Car/Machinery allowed under the scheme? If yes then what will be the modus operandi and maximum tenor of the same?

Clarification: Please refer to FAQ No. 10 according to which the scheme does not restrict leasing of plant and machinery, commercial vehicles and other operating fixed assets. The bank may extend financing facilities as per its discretion. The modus operandi and tenor may be decided by the bank at its own end.

60. If a bank already has a product program for collateral free financing with features similar to SAAF. Can the said program be converted into SAAF?

Clarification: The bank cannot convert already disbursed loans under another product into SAAF, however, new loans under that product may be financed under SAAF provided it contains all the features of SAAF.

61. A spouse of an employee working in a bank is running his / her own business. Can he / she avail financing facility under SAAF from the same bank where his / her spouse is working?

Clarification: As per SME PR Regulation SME R-6, spouse of a bank employee falls under definition of related party, hence, he / she cannot avail financing facility under SAAF from the same bank where his / her spouse is working.

62. Can we book trade related finance (like FATR, Import bill retirement, Pre & Post shipment own sources, etc.)?



Clarification. Trade related finance to SMEs is allowed under SAAF. However, bills, pre & post shipment finance already retired by the borrowers through own sources cannot be financed under SAAF.

63. Can we offer financing to SME client for purchase of tractor, thresher, sheller etc.?

Clarification. Yes. Financing can be availed by SME client for purchase of locally manufactured tractors, threshers, and shellers for its SME business.

64. As risk sharing facility will only be available for four years and in case we are financing for more than four years tenor, then what will be modus operandi after expiry of SBP guarantee of four years? Can bank book that specific obligor with collateral at the time of approval of loan to secure bank's risk?

Clarification: In case of long term loans approved during three years validity of the scheme, the bank may clarify to the borrowers at the time of approval of loan that after expiry of GOP risk coverage, borrower will be obligated to provide collateral to cover the bank's risk. Moreover, the participating bank may extend secured financing facilities to new SME borrowers from the fourth year and onwards using remaining SBP refinance amount since such new loans will not be covered under GOP risk sharing facility.

65. Participating banks are entitled to claim risk coverage guarantee on first loss on objective basis. If a customer needs to be classified on subjective basis on account of its business operations. Will bank be entitled for risk sharing guarantee claim or wait till loan loss on objective basis?

Clarification: The bank may classify a loan on subjective basis; however, for claiming subsidy from SBP, the bank will wait until time required for objective classification of loans disbursed under SAAF is completed.

66. Please clarify that in case two business entities (group concerns) are owned by multiple sponsors / shareholders / partners / directors but some of them are common (not all), in that case, if restriction of cumulative financing of PKR 10 million under SAAF scheme be applicable on these both group entities or will financing of PKR 10 million be allowed separately for both group concerns?

Clarification: Group concerns with multiple sponsors/shareholders/partners/directors (out of which some are common) may avail maximum financing of PKR 10 million per group concern.

67. A proprietorship, XYZ Enterprises owned by Mr. A operating as a furniture showroom, is an existing SME borrower, and another proprietorship of Mr. A, a non-borrowing entity of the bank, operating as a school has applied for a loan under SAAF. Can such proprietor avail loan under SAAF?



Clarification: A non-borrowing proprietorship entity of same proprietor may avail financing under SAAF from the bank provided that the proprietor owning multiple SME businesses can only avail cumulative financing of upto PKR 10 million under the scheme.

68. A partnership, ABC Traders owned by Mr. P and Mr. Q operating as a grain trader, is an existing SME borrower, whereas another partnership of Mr. P and Mr. Q, or Mr. P and Mr. T, a non-borrowing entity of bank, engaged in distribution business has applied for a loan under SAAF. Can such entity avail loan under SAAF?

Clarification: A non-borrowing partnership entity of same partners/ or at-least having one common partner may avail financing under SAAF from the bank.
