

Financing Framework for Small Enterprises & Small Farmers under Wholesale and Agency Arrangements

In order to further enhance access to finance for Small Enterprises (SEs) and Small Farmers (SFs) under Government's Risk Coverage Facility, SBP has developed a Financing Framework for SEs & SFs under wholesale and agency arrangements. The Financing Framework enables banks hereinafter referred as Participating Financial Institutions (PFIs) to provide financing through wholesale and agency arrangements by leveraging the outreach and financing related capabilities of eligible institutions, i.e. Microfinance Banks, Non-Banking Microfinance Companies (NBMFCs) and Non-Bank Finance Companies (NBFCs), hereby referred to as Agent Financial Institutions (AFIs).

The Framework aims to ensure that PFIs and AFIs have robust systems and processes, with explicitly defined roles and responsibilities. Under the Framework, the AFIs will be responsible for loan origination, appraisal, approval, monitoring, recovery and reporting, while loans can either be booked directly in the PFIs books (Agency arrangement or in the partner institutions' books (wholesale arrangement). In both cases, the loans extended under the Wholesale or Agency Arrangement will be identifiable and traceable and will be reported to the PFIs through API based integration. The parameters of the framework are as below:

1. Eligibility Criteria for AFIs

Under the financing mechanism, PFIs shall adhere to the following eligibility criteria to select the AFIs:

- a. Operational Self-sufficiency => 100%
- b. SME and Agriculture non-performing loans <= 5%
- c. Unqualified audited financial statements for last 2 years
- d. Compliant with minimum CAR / capital requirement as prescribed by the regulatory authority, if loans are booked by AFI on its books of accounts.
- e. Experience of minimum 3 years in enterprise loans/ agri. financing
- f. Sound Governance and Risk management systems including Functional Board, independent internal audit & compliance function and robust credit origination, monitoring and reporting system.
- g. Meet the regularity requirement of AML/CFT, aligned with SBP / SECP rules.

2. The Roles and Responsibilities of AFIs

The PFIs interested in opting the framework shall enter into a formal Agency Agreement with the eligible AFIs to provide financing to SEs and SFs. The AFIs shall inter alia be made responsible for:

- a. **Borrower Identification:** Sourcing of eligible SEs and SFs through its existing branch network and community and business relationships.
- b. **Biometric & PMD Verification:** Biometric & PMD verification of the customers/applicants through its branches or digital platforms etc.

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- c. **Due Diligence and Underwriting:** Cash-flow assessment, character reference checks, collateral or guarantor verification, and credit decision based on the standardised credit appraisal system.
- d. **Execution of Financing Agreement-** Execute the financing agreement with the SE or SF and complete the security documents (where applicable), and related covenants.
- e. **Applicant's Data Sharing with PFIs:** Sharing of the successful applicant's details with the PFI via secure APIs for opening of account. Alternatively, the account can be opened in the AFIs books (MFBs) and the complete data and details about the applicant/borrower will be shared with the PFI through secured APIs. The AFI for this purpose will make suitable arrangements to keep such financing separate from its other financing portfolio.
- f. **Loan Documentation:** The AFI will complete all the documentation including loan/financing agreement, security/collateral documents etc. and keep the documents in its custody; the scanned copies of the documents can be shared with the PFI based on the bilateral understanding with the PFI.
- g. **Portfolio monitoring, Servicing and Reporting:** Ongoing monitoring of the financing portfolio, initiation of collection follow-ups, instalment reminders, insurance renewals, customer service through its branch network and reporting of operations in the account on real time basis through API based integration with the principal PFI.
- h. **Recovery:** monitoring of over dues, physical follow-up, negotiation, and where necessary, initiation of recovery proceedings.

3. The Roles and Responsibilities of PFIs

The PFIs may have arrangements with one or more AFIs for providing financing to SEs and SFs under the framework. The key roles and responsibilities of the PFI may inter alia include:

- a. **Due Diligence of AFIs-** Conduct comprehensive due diligence covering ownership structure, governance, financial performance, portfolio quality, systems capability, and regulatory compliance status.
- b. **Assignment of limit to AFI-** Assign limit to the AFI for SE and/or SF financing based on the capacity, branch network, existing clientele size, system capability etc. The agreement among others shall allow the PFI to have complete access to the AFI systems, records, books of accounts, financing documents etc.
- c. **Execution of Agency Agreement-** Execute the agency agreement with AFI(s) explicitly defining the objectives, the total limit, the maximum loan size and the roles and responsibilities of both the PFI and AFI. Further, the agency agreement shall also include the end user rate for SEs and SFs under this framework and charges/fees of AFI, mutually agreed upon.
- d. **Borrowers' Data Collection-** Establish API-based integration with the AFIs for the secure and real time collection of borrowers' details and financing data. PFIs shall maintain separate and identifiable datasets for each AFI and, within each AFI, separately for SE and SF financing. This may, inter alia, be facilitated through the creation of each AFI as a distinct entity/branch in the PFI's system.
- e. **Disbursement of Funds:** Under the agency arrangement, PFIs will disburse funds directly in the borrowers designated accounts with real time communication to the AFI regarding disbursement of the loan/financing. Under the wholesale arrangement, the AFI will disburse the funds to the borrowers and claim reimbursement from PFI; the PFI will reimburse the amount to the AFI based on the reporting of disbursed loan data by AFI to the PFI.

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f. **Ongoing Monitoring & Risk Management**

- i. Receive regular (preferably real-time or near real-time) digital data from AFIs covering portfolio outstanding, Portfolio at Risk (PAR)/NPLs, collection efficiency.
- ii. The PFIs shall monitor the loans/financing portfolio of each AFI and generate alerts in case of stress, if witnessed in the portfolio. Further utilization of the limit shall be withheld/ceased if the NPLs in either wholesale or agency arrangement under this framework exceed 10%.

g. **Governance & Internal Controls**

- i. Ensure independent oversight by the Risk Management, Compliance, and Internal Audit functions at regular intervals.
- ii. Maintain clear segregation of duties and accountability across credit, operations, risk, and compliance teams involved in lending activities to AFIs.

4. Mechanism and Operational Requirements for Wholesale and Agency Arrangements

- a. PFIs may provide financing through wholesale funding or agency arrangements with eligible AFIs for onward financing to SEs and SFs as mentioned in Section 1 above. AFIs will also perform due diligence, account opening, API-based borrower data sharing, financing traceability and portfolio monitoring.
- b. PFIs shall determine and periodically review AFI-wise exposure limits based on their risk assessment and applicable regulatory requirements, while ensuring compliance with the prescribed maximum financing limits.
- c. PFIs shall continuously monitor utilization of the wholesale facility, compliance with agreed covenants, and the quality of the underlying AFI portfolio. Key monitoring indicators include facility utilization, repayment performance of the AFI, NPLs and classification of the on-lent portfolio, concentration levels, and adherence to end-borrower eligibility criteria.
- d. In case the NPLs of an AFI under the wholesale arrangement/facility increases to 10 percent, the PFI shall freeze further disbursements, and take necessary remedial measures as per the facility agreement.
- e. The PFIs having the wholesale arrangements shall maintain separate ledger of accounts of their wholesale portfolio and shall give breakup of retail and wholesale portfolio against SEs and SFs in their regulatory reporting.
- f. Similarly, the AFI booking the loans under wholesale arrangement in its own books, shall report/disclose its gross portfolio against SEs and/or SFs with a breakup of the portfolio developed under wholesale arrangement with PFI(s) and the portfolio developed through its own resources etc.

5. Maximum Financing Limits

The following maximum loan limits shall apply on financing to SEs and SFs under this framework:

S. No.	Type of Financial Institution acting as AFIs	Maximum Loan Limit per SE Borrowers	Maximum Loan Limit per Agri Borrowers
1	NBMFC	PKR 1.0 million	PKR 0.5 million
2	NBFCs/MFBs	PKR 5.0 million	PKR 2.0 million

The above ceilings shall apply to the individual borrower exposure originated under this arrangement, based on the respective AFI's financing capacity, underwriting and monitoring capabilities.

6. Risk Coverage Facility for financing to SEs and SFs

PFI's financing on wholesale or agency basis to eligible SEs & SFs will be covered under Federal Government Risk coverage schemes for SMEs and Small farmers notified vide SH&SFD Circular 02 of 2024 and ACFID Circular 2 of 2025.

7. Claim Verification and Processing Mechanism

Claims under this framework with respect of SE and SF financing originated through this framework shall be submitted by the PFI in accordance with the provisions of the framework. The PFI shall remain solely responsible for undertaking due diligence and satisfying itself that the underlying SEs and SFs financing qualifies for risk coverage.

Prior to submission of any claim, the claim shall be duly verified and endorsed by the PFI's concerned business unit, compliance function and internal audit, confirming compliance with the provisions of the framework and the internal policies. Losses eligible for risk coverage shall be determined in accordance with the applicable Prudential Regulations for SME Financing and Agriculture Finance.

All other requirements relating to claim verification, processing, settlement, recoveries and adjustment of claims shall be governed by the relevant SBP circulars issued thereunder.
