SME Asaan Finance (SAAF) Scheme

Infrastructure, Housing & SME Finance Department

STATE BANK OF PAKISTAN

SME ASAAN FINANCE (SAAF) SCHEME

1. **Introduction**

   Access to finance can play an important role in development of Small and Medium Enterprises (SMEs) sector. In order to overcome inherent structural deficiencies in SMEs lending like asymmetry of information, high loan losses, lack of collateral, high delivery costs, etc. State Bank of Pakistan (SBP) is offering a SME Asaan Finance (SAAF) scheme to fulfill the financing requirements of SMEs. The details of the scheme are as under:

2. **Selection of Participating Banks**

   SBP will invite interest of banks through Expression of interest (EOI) that desire to build their SME loan portfolio during the three-year validity period of the scheme. Banks offering highest portfolio size and largest number of borrowers will be selected as participatng banks under the scheme. Maximum number of participating banks, selected from following four categories based on the criteria prescribed by SBP, will be eight:-

   a. Large Banks
   b. Mid-sized Banks
   c. Small Banks
   d. Any category of banks in collaboration with a Fintech

   However, in case a conventional bank also having IBBs is selected under the scheme then it can disburse available refinance limit, as per its discretion, through its conventional and IBB network.

3. **Scope and Eligibility**

   i.   All SMEs (new businesses as well as operative businesses) that are new borrowers of a bank will be eligible. A single SME can, however, avail this facility from one bank only.

   ii. The definition of SMEs as prescribed in Prudential Regulations for SME Financing will be applicable for the purpose of this scheme.

4. **Financing Limit and Type**

   i.   Maximum financing, under the scheme, to a single SME will be capped at PKR 10 million.

   ii. All types of loans i.e. term loans as well as working capital/running finance loans will be eligible.

   iii. Loans may be secured against personal guarantees of the borrowers.

5. **Financing Tenor & Repayment**

   Maximum tenor of the loan extended to the borrower will be as per terms & conditions of financing facility approved by the participating bank. The loan will be repaid on due dates agreed between the bank and the borrower.

6. **Rate of Mark-up**

   Mark-up rate for end user under the scheme will be of up to 9 percent per annum (p.a.). SBP will provide refinance to participating banks at 1 percent p.a., thereby, offering a spread of up to 8 percent p.a.

7. **Risk Sharing**

   i.   Under the scheme, the Government of Pakistan will provide first loss portfolio level risk coverage of percent 40 to 60 percent on following portfolio categories:

Portfolio Category	Risk Coverage
Loans of up to PKR 4 million	60 percent
Loans exceeding PKR 4 million and up to PKR 7 million	50 percent
Loans exceeding PKR 7 million and up to PKR 10 million	40 percent

   ii.   The risk sharing will be synchronized with the classification and provisioning criteria of SBP, prescribed under Prudential Regulations for SME Financing, to ensure that the profit & loss account of participating banks is not affected as far as loan infections remain below risk coverage levels.

   iii. The guarantee/risk sharing will be applicable on loans disbursed under this scheme during the first three years from the launch of the scheme. The validity of the guarantee/risk sharing facility will, however, come to an end after four years of the initiation of the scheme. The last payment under the risk sharing facility will be made for infections recognized at the end of last quarter of fourth year.

   iv.   The risk coverage, at prescribed percentages, will be available separately for each portfolio category and appropriation of residual risk coverage from one portfolio category to another will not be permissible.

   v.   Placement of each loan in respective category of risk coverage will be determined on the basis of approved limit of the borrower. Therefore, disbursement amount below approved limit or any subsequent reduction in the outstanding amount of the loan would not result in movement of loans from one portfolio category to another portfolio category.

   vi.   The participating banks, at each quarter end, will lodge their claims with Development Finance Support Department (DFSD), SBP BSC Karachi within 15 working days after each quarter end. The submitted claim should be equivalent to an amount of their loan loss provision against loans classified as non-performing on objective basis in terms of Prudential Regulations for SME Financing. The reimbursement against lodged claims will be made by DFSD within 15 working days from available government funds to ensure that there is no adverse impact on the profit & loss statement of the bank due to portfolio losses guaranteed under the scheme.

vii.   All claims, prior to submission to the DFSD, should be duly vetted by internal audit department of participating bank. DFSD will release payment against the audited lodged claim. SBP may conduct onsite inspection of lodged claims on sampling basis.

viii.   The participating bank will not write-off any loan for a period of seven years from receipt of claim against such loan under risk coverage facility. The bank will undertake to make all reasonable efforts to continue recovery efforts against the non- performing loans.

8. Methodology of Refinancing and Repayment

8.1 Allocation of Refinance Limits

SBP will allocate refinance limits to the selected participating banks equal to the bids quoted by them under the scheme.

8.2 Grant of Refinance

i.   SBP shall provide refinance to participating banks on service charges basis in terms of Section 17 (2) (d) read with Section 22 of SBP Act, 1956. SBP will provide refinance for three years from the launch date of the scheme to the participating banks selected through a transparent bidding process.

ii.   Refinance shall be provided to participating banks by SBP BSC, Karachi Office on submission of refinance documents. SBP BSC, Karachi will provide refinance within two working days of receipt of complete information as required.

iii.   Participating banks will submit, on each Tuesday of the week, to SBP BSC, Karachi Office, average weekly portfolio outstanding position, in preceding week, calculated on daily product basis.

iv.   SBP BSC, Karachi Office, based on average weekly portfolio outstanding position, submitted by each participating bank, will provide refinance to bank on weekly basis within two working days after receiving refinance request, provided the portfolio has increased on week-on-week basis. Whereas, the bank will be required to repay, within two working days of each Tuesday, any excess outstanding refinance availed, provided the portfolio has decreased, on week-on-week basis.

v.   Any delays, exceeding two weeks, in disbursement of refinance amount to the participating banks due to administrative reasons, will be compensated vide extension of corresponding number of days in repayment of such refinanced amount.

8.3 Repayment of Refinance

i.   The refinance granted by SBP BSC, Karachi Office to the participating banks will be recovered on due dates as reported to the Karachi office from the accounts of the banks maintained with SBP BSC, Karachi Office.

ii.   The participating banks will pay mark up on refinance availed to SBP on quarterly basis within seven working days from the close of each quarter.

iii.   After 3 years, the refinance will be repayable by banks in 10 equal yearly instalments.

iv.   The participating banks, in subsequent ten years available for repayment of the refinanced amount, will be permitted to retain the amount arising due to early repayments made by the borrowers, subject to condition that such participating bank disburses incremental loans to existing SME borrowers or to new SME borrowers. The incremental loans should be at least equivalent to an amount such that aggregate portfolio in relevant year, on daily product basis, continues to remain at least equal to expected portfolio outstanding amount for that year end. An illustrative example is placed at **Appendix-I.**

9. **Other Terms and Conditions**
    i.   Participating banks shall ensure that financing under the scheme is extended only to meet the business needs of the borrowers.
    ii.   In case of purchase of plant and machinery under term financing, disbursement by participating bank will not be made to the SME borrowers directly. In such cases, payments will be made to the suppliers of the plant and machinery to the SME borrowers.
    iii.   Financing under the scheme may be checked by SBP during onsite inspection of the bank to ensure that the same has been allowed as per the terms and conditions of the scheme.
    iv.   In case of violation of the terms & conditions of the scheme, SBP shall reserve the right to recover the amount of refinance granted to the bank along-with fine at the rate of Paisa 60 per day per PKR 1,000/- or part thereof for the period of refinance.
    v.   The banks shall ensure to immediately pay back any amount disbursed by SBP under guarantee / risk coverage, if SBP subsequently concludes that such claim made under guarantee / risk coverage was wrongfully claimed. The bank will also pay fine on such amount as may be announced by the SBP from time to time, for the period for which such amount is availed by the banks.
    vi.   If any question arises with regard to interpretation of any instructions of the scheme, the decision of SBP shall be final.

Illustrative Example

The refinance will be provided for the loans disbursed during first three years of the scheme. After three years, the banks will repay the refinance in ten equal yearly instalments. The banks, in subsequent ten years, will be permitted to retain the amount arising due to early repayments made by the borrowers, subject to condition that such bank disburses incremental loans to existing SME borrowers or to new SME borrowers. The incremental loans should be at least equivalent to an amount such that aggregate portfolio in relevant year, on daily product basis, continues to remain at least equal to expected portfolio outstanding amount for that year end.

Example: Bank 'A' launches the scheme on January 01, 2021 and builds a portfolio of PKR 50 billion up to expiry of the scheme after three years on December 31, 2023. The amount of PKR 50 billion will be locked for repayment in ten equal annual installments for the bank 'A'. Therefore, bank 'A' will make first repayment of PKR 5 billion on December 31, 2024 and thereafter it will make repayment of remaining annual installments of PKR 5 billion on December 31 (or last working day) of each subsequent nine years. The last installment will be repaid on December, 2033.

Particulars	1	2	3	4	5	6	7	8	9	10
	Dec-24	Dec-25	Dec-26	Dec-27	Dec-28	Dec-29	Dec-30	Dec-31	Dec-32	Dec-33
Repayment	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)
O/s portfolio	45	40	35	30	25	20	15	10	5	-

Accelerated Repayment Due to Early Repayments in Portfolio - The bank 'A', in 2025, witnesses early repayments in the portfolio build under the scheme and at December 31, 2025 the aggregate portfolio, on daily product basis, drops to PKR 34 billion; moreover, bank 'A' was also unable to make incremental loans to existing SME borrowers of portfolio or new SME borrowers. In such case, bank 'A' will be required to make repayment of PKR 11 billion on December 31, 2025 vis-à-vis scheduled repayment of annual installment of PKR 5 billion [i.e. scheduled repayment of PKR 5 billion plus accelerated repayment of PKR 6 billion due to early repayments in the portfolio].

Standard Repayments Due to Incremental Loans to SME Borrowers - Whereas, in the event portfolio although witnesses early repayments during 2025; however, bank 'A' disburses additional loans to existing SME borrowers of the portfolio or to new SME borrowers and resultantly the aggregate portfolio of 2025, on daily product basis, continues to remain in excess of PKR 40 billion [i.e. minimum expected outstanding amount for December 31, 2025]; in case such Bank 'A' will continue to make repayment of scheduled annual installment of PKR 5 billion.

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