



**Request for Expression of Interest**

**Selection of Banks for Rollout of  
SME Asaan Finance (SAAF) Scheme**

**State Bank of Pakistan**

# Contents

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<b>SECTION-I: INTRODUCTION.....</b>	<b>3</b>
<b>SECTION-II: INSTRUCTIONS TO THE BANKS.....</b>	<b>5</b>
<b>SECTION-III: ELIGIBILITY / QUALIFICATION CRITERIA.....</b>	<b>7</b>
<b>SECTION-IV: SELECTION CRITERIA.....</b>	<b>8</b>
<b>SECTION-V: GUIDELINES FOR SUBMISSION OF INTEREST.....</b>	<b>9</b>
<b>APPENDICES.....</b>	<b>10</b>

## SECTION-I: INTRODUCTION

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### **ROLLOUT OF SME ASAAN FINANCE (SAAF) SCHEME**

#### **1. Objective**

The scheme envisages to partner with selected banks enabling them to develop an appropriate lending technology that surmounts inherent structural deficiencies in financing to Small and Medium Enterprise (SME) financing like asymmetry of information, lack of collateral, high delivery costs, etc. The scheme aims to increase share of financing to small businesses in overall loan portfolio of the banking industry.

#### **2. Background**

Banking industry of Pakistan started focusing on SME sector during the period of 2004-2006, which led the overall SME financing (PKR 408 billion) to reach at 17 percent of total private sector financing in December 2006<sup>1</sup>. However, following the economic slowdown of 2007-08, SMEs became riskier propositions for the financial institutions. Due to various regulatory measures and facilitative role of State Bank of Pakistan (SBP), SME financing started growing from 2013 onwards.

SBP has been making continuous efforts to create an enabling environment and facilitate the SME sector in Pakistan. SBP has adopted a three-pronged strategy for promotion of SME finance i.e. **a)** providing an enabling regulatory environment, **b)** undertaking market development measures, and **c)** creating awareness and capacity building of bankers and SMEs. Resultantly, SME financing by banks in Pakistan has for first time crossed the milestone of PKR 500 billion and was recorded at PKR 513 billion at the end of CY 2018. However, the current pandemic has caused a decline in this trend and SME financing was recorded at PKR 481 billion as of December 31, 2020.

Access to finance, amongst other limitations, continue to remain challenge for SMEs in Pakistan in achieving their potential. This is in part due to higher loan losses, larger intermediation costs, lack of appropriate lending technology for retail lending, acute information asymmetry, collateral deficiency and desire of SMEs to operate in informal sector. The banks, therefore, are reluctant to lend to SMEs. In order to address this issue, SBP has developed a **SME Asaan Finance (SAAF)** scheme after extensive consultations with all the stakeholders. The scheme envisages collaborating with some banks selected through transparent procedure to enable them offer collateral free loans to SMEs. In order to cater the financing need of faith sensitive borrowers, Shariah compliant alternate of this scheme i.e. **Islamic SME Asaan Finance (I-SAAF)** has also been developed.

It is expected that due to the different regulatory and administrative measures of SBP, SME financing will grow as a percentage of overall private sector financing.

#### **3. Salient Features**

Under the scheme, SBP will provide refinance at the mark-up rate of 1 percent during three years validity period of the scheme. The selected banks will extend financing to SMEs at mark-up rate of up

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<sup>1</sup> Policy for promotion of SME Finance, issued on December 22, 2017

to 9 percent and will get refinance against the same at 1 percent, thereby maintaining a spread of up to 8 percent. Maximum financing for a single SME, under the scheme, will be PKR 10 million.

The Government of Pakistan will also provide risk coverage of 40 percent to 60 percent on first loss portfolio basis on following portfolio categories:

- 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

Key features of the scheme are placed at **Appendix-I**.

#### **4. Categories of Banks Available for Bidding**

Maximum eight banks will be selected, based on criteria specified at **Section-II** of this document, from following four categories:-

- Large Banks
- Mid-sized Banks
- Small Banks
- Any category of banks in collaboration with a Fintech

The definition of large, mid-sized, small bank and Fintech is placed at **Section-II** of the document. The interested banks can submit their EOIs either in their own category (determined on the basis of size) or in the fourth category.

#### **5. Payment against Risk Coverage**

Each selected bank will submit to SBP, on quarterly basis, details of loan loss claims for reimbursement under the risk coverage. SBP, based on available government funds, will make reimbursements to the concerned banks.

#### **6. Reporting & Coordination**

The point of contact for submission of Expression of Interest and soliciting clarification on this document will be:

**Mr. Akhtiar Ahmed**  
Senior Joint Director  
Infrastructure, Housing & SME Finance Department  
State Bank of Pakistan  
Karachi  
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## SECTION-II: INSTRUCTIONS TO THE BANKS

<b>1. Scope of Expression of Interest</b>	State Bank of Pakistan, having its principal place of business at I.I. Chundrigar Road, Karachi, Pakistan which, wherever the context permits, shall be deemed to include its subsidiaries hereinafter interchangeably called the “Bank” invites sealed Interests for <b>“Selection of banks for rollout of SME Asaan Finance (SAAF) scheme”</b> in Pakistan.													
<b>2. Eligibility of the Bank</b>	i. The banks will be required to fulfil the eligibility criteria as defined at <b>Section-III</b> of this Expression of Interest. ii. For banks which will be participating in collaboration with a Fintech, only the assessment of the bank will be performed on selection criteria. However, such collaboration should be clearly mentioned in Expressions of Interest Response.													
<b>3. Definition of Large, Medium-Sized and Small Banks</b>	<p>Following criteria will be used for categorization of the interested banks into four categories:</p> <table border="1" data-bbox="516 676 1432 1094"> <thead> <tr> <th>CATEGORY</th> <th>NATURE OF CRITERIA</th> <th>THRESHOLD</th> </tr> </thead> <tbody> <tr> <td>Large Banks</td> <td rowspan="3">Total Assets Net of Provisions as of March 31, 2021</td> <td>Above PKR 1,500 BN</td> </tr> <tr> <td>Medium Sized Bank</td> <td>Above PKR 700 BN to PKR 1,500 BN</td> </tr> <tr> <td>Small Banks</td> <td>Less than PKR 700 BN</td> </tr> <tr> <td>Banks in collaboration with Fintech</td> <td>Any bank</td> <td>No threshold</td> </tr> </tbody> </table> <p>Fintech means as defined by Financial Stability Board i.e. <b><i>“Technologically enabled financial innovation that could result in new business models, applications, processes, or products with an associated material effect on financial markets and institutions and the provision of financial services”</i></b>.</p>	CATEGORY	NATURE OF CRITERIA	THRESHOLD	Large Banks	Total Assets Net of Provisions as of March 31, 2021	Above PKR 1,500 BN	Medium Sized Bank	Above PKR 700 BN to PKR 1,500 BN	Small Banks	Less than PKR 700 BN	Banks in collaboration with Fintech	Any bank	No threshold
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Large Banks	Total Assets Net of Provisions as of March 31, 2021	Above PKR 1,500 BN												
Medium Sized Bank		Above PKR 700 BN to PKR 1,500 BN												
Small Banks		Less than PKR 700 BN												
Banks in collaboration with Fintech	Any bank	No threshold												
<b>4. One Interest per entity</b>	Interested banks shall submit only one Interest, either individually or in collaboration with a Fintech, in any one of the available relevant category as per above point.													
<b>5. Cost of Expression of Interest</b>	The interested banks shall bear all costs associated with the preparation and submission of their interest and SBP will in no case be responsible or liable for those costs.													
<b>6. Amendment of Expression of Interest Documents</b>	i) At any time prior to the deadline for submission of Interest, the SBP may, for any reason, whether at its own initiative or in response to a clarification requested by a prospective bank, amend the Request for Expression of Interest (REOI) document. Amendments will modify or replace/supersede earlier ones.													

	<p>ii) Amendments will be provided in the form of Addenda to the REOI document, which will be sent in writing or through e-mail to all prospective participating banks (PBs) which received the REOI from the SBP. Addenda will be binding on PBs. PBs are required to immediately acknowledge receipt of any such Addenda. It will be assumed that the amendments contained in such Addenda have been taken into account by the PB in its EOI submission.</p> <p>In order to allow PBs reasonable time in which to take the amendment into account in preparing their Interests, the SBP may, at its discretion, extend the deadline for the submission of Interest.</p>
<b>A. PREPARATION OF INTEREST</b>	
<b>7. Language of Interest</b>	The Interest prepared by the PBs, as well as all correspondence and documents relating to the Interest exchanged by the PBs and the SBP shall be written in English or Urdu.
<b>SUBMISSION OF INTEREST</b>	
<b>8. Sealing &amp; Marking of Interest /</b>	The PBs shall submit EOI documents, in hardcopy, at the address specified in this document.
<b>9. Deadline for Submission of Interest</b>	The State Bank of Pakistan must receive interests from the PBs addressed to <b>Mr. Akhtiar Ahmed</b> , Senior Joint Director, IH & SMEFD, State Bank of Pakistan within four weeks from the issuance of circular on the subject scheme.
<b>10. Opening of Interest</b>	EOIs will be opened, in the presence of representative of SBP nominated by Executive Director, Development Finance Group, on the next working day after expiry of four weeks period available for submission of EOIs.
<b>11. Late Submission of Interest</b>	SBP will not entertain the EOI received after the prescribed deadline.
<b>B. EVALUATION OF INTERESTS</b>	
<b>12. Selection procedure for shortlisting of PBs</b>	The shortlisting of PBs will be done pursuant to Section-III of this document.
<b>13. Evaluation and Comparison of Interest</b>	Pursuant to Evaluation Criteria contained in this document the EOI submitted by the PBs as per Guidelines for Submission of Interests (Section V) shall be evaluated in detail as per criteria given in Section IV.

## SECTION-III: ELIGIBILITY / QUALIFICATION CRITERIA

The evaluation of interested banks will be ascertained on following parameters:-

Sr. No.	Qualification / Shortlisting Criteria	Evaluation Parameter	Mean of Verification
1	Interested bank must be compliant to standard Minimum Capital Requirement prescribed by State Bank of Pakistan.	Mandatory Criteria	Annual and Quarterly Financial Statements.
2	Interested bank must be compliant to standard Capital Adequacy Ratio prescribed by State Bank of Pakistan.		
3	Interested bank must not be rated as “marginal” or “un-satisfactory” under CAMELS and CAELS supervisory framework in the last available supervisory onsite/offsite assessment.	Mandatory Criteria	Latest available CAMELS or CAELS supervisory ratings will be used for assessment.
4	Collaborating Fintech must be registered with tax authorities and appear on Active Taxpayer List of FBR (where applicable).	Mandatory Criteria	Copies of valid Tax registration certificates / NTN Certificates. FBR Website proof of Active Taxpayer List (where applicable).
5	The collaborating Fintech should not be blacklisted/debarred/sanctioned by any organization/agency and information provided in REOI response/submission is correct.	Mandatory Criteria	<p>Affidavit on PKR 100 stamp paper from the bank confirming that:</p> <p>(a) Fintech has never been blacklisted/debarred by any organization;</p> <p>(b) All the information provided by the bank is correct;</p> <p>(c) Name of Fintech is not included in the World Bank/PPRAs /NACTA debarred/sanctioned list.</p> <p>(d) Name of Fintech is not included in the UN sanctioned list.</p>

## SECTION-IV: SELECTION CRITERIA

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The list of final qualified banks from all eligible banks will be decided on the basis of following two criteria:-

- i. Total amount of loans disbursed under the scheme; and,
  - ii. Total number of borrowers to be on-boarded under the scheme.
2. In each category (large bank, medium sized bank, small banks and bank collaborating with Fintech), maximum of two banks would be selected. One, which expresses to disburse maximum amount of loans disbursed under the scheme and the other, which submits to on-board highest number of borrowers during the validity of the scheme.

**Note:**

1. In case a single bank expresses, in a category (i.e. large, medium sized bank, small bank etc.), both the maximum amount of loans to be disbursed and highest number of borrowers to be on-boarded during the validity of the scheme, then the bank expressing second highest number of borrowers to on-board during the scheme will be selected as the second bank from that category.
2. In case more than one bank express same amount / number as maximum amount of loans to be disbursed or the highest number of borrowers to be on-boarded during the validity of the scheme, then the bank with highest existing outstanding portfolio of SME loans as of preceding quarter end will be selected.
3. The EOI submitted through hard copies within the prescribed due date will only be entertained by SBP.



## SECTION-V: GUIDELINES FOR SUBMISSION OF INTEREST

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1. Eligible bank(s) should submit Expression of Interest (EOI) in English or Urdu language along with relevant complete details of their qualification and experience as under:
  - i. Name, Address, Phone, Fax and E-mail address along with postal and telegraphic address for the Head Office and contact person.
  - ii. Certificate of Incorporation / Registration with authorized Government Department(s) of the Fintech, as Legal Entity.
  - iii. Corporate profile providing sufficient information / detail on, including but not limited to, following areas in respect of Fintech:-
    - a. Years of operations;
    - b. Business model of Fintech and experience in SME financing;
    - c. Management Structure, organogram with relevant information about Board of Directors etc.;
    - d. Core competencies having information in related areas;
  - iv. A bank including its Islamic Banking Division can only submit a single bid. In case, this bank is selected under the scheme then it can disburse available refinance limit, as per its discretion, through its conventional and IBB network.
  - v. In case of banks, participating in collaboration with a Fintech, original Letter(s) of Association from CEO of collaborating partner Fintech on the letter head of a Fintech duly signed and stamped, confirming the collaboration between them, must be provided;
  - vi. Affidavit from the collaborating Fintech confirming that: **(a)** applicant Fintech has never been blacklisted by any International, Government/Semi Government Organization and **(b)** all the information provided by the applicant Fintech is correct.
2. Each bank must provide year wise expected disbursement amount and number of SME borrowers to be on-boarded.
3. Interested banks must provide lucid information as per above requirements indicating that they are qualified to perform above services and must provide only materials that would be specific to the proposed services, and to avoid submitting generic promotional material.
4. Any further information/clarification by SBP can be sought.

### SME ASAAN FINANCE (SAAF) SCHEME

#### **Key Features of the Scheme**

##### **1. Scope and Eligibility**

- All SMEs (new businesses as well as operative businesses) that are new borrowers of a bank will be eligible; an SME can avail this facility from only one bank.
- The definition of SMEs as prescribed in Prudential Regulations for SME Financing will be applicable for the purpose of this scheme.

##### **2. Financing Limit and Type**

- Maximum financing, under the scheme, to a single SME will be capped at PKR 10 million.
- All types of loans i.e. term loans as well as working capital/running finance loans will be eligible.
- Loans may be secured against personal guarantees of the borrowers.

##### **3. 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.

##### **4. Grant of Refinance**

- 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.
- 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.
- 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.
- 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.
- 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.

- Time bound refinancing will be provided by State Bank at 1 percent with end user rate of up to 9 percent, offering a spread of up to 8 percent to participating banks.
- The refinance will be provided for first three years from the launch date of the scheme only. After three years, the refinance will be repayable by banks in ten equal yearly installments.
- 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 the 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-II**.

## 5. Risk Sharing

- Under the scheme, the Government of Pakistan will provide first loss portfolio level risk coverage of 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

- 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 bank is not affected as far as loan infections remain below risk coverage levels.
- 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 fourth year 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.
- 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.
- 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.
- 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 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.

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

**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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