



TRADE DEVELOPMENT AUTHORITY OF PAKISTAN

Ministry of Commerce



**AN EASY GUIDE ON SME ASAAN FINANCE SCHEME (SAAF)
FOR LENDING TO SMEs WITHOUT COLLATERAL**

September 2021



DISCLAIMER

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Acronyms

SAAF	SME Asaan Finance
I-SAAF	Islamic SME Asaan Finance (I-SAAF)
SBP	State Bank of Pakistan
SMEs	Small and Medium Enterprises
EOI	Expression of interest (EOI)
NTN	National Tax Number
PIBIs	Participating Islamic Banking Institutions (PIBIs)
STRN	Sales Tax Registration Number
WeBOC	Web Base One Customs

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SME ASAAN FINANCE (SAAF) SCHEME

1. Introduction

The State Bank has introduced an innovative initiative ‘SME or Asaan Finance’ or SAAF to improve access to finance for Small and Medium Enterprises (SMEs) in collaboration with Government of Pakistan with aim of enabling businesses who cannot offer security / collateral to access bank finance. SAAF is a refinance and credit guarantee facility which is aimed at assisting SME’s that are creditworthy but are still unable to access finance as they cannot offer the security required as collateral by banks.

The SBP will provide refinance to banks while the Government of Pakistan will support via partial credit guarantees to the participating banks. This support is being provided initially for three years to facilitate investments by banks in technology, infrastructure and team building specialized in SME lending, after which SME financing by banks is expected to be sustainable without SBP or Government support. Majority of SMEs in the informal sector that do not have collaterals are currently borrowing in cash or kind at rates of at-least 25%. This scheme is primarily targeted to such SMEs. In order to overcome these challenges, the SBP has adopted a fresh and innovative approach to address both SME and Bank issues. SBP will provide refinancing only to those banks that desire to specialize in lending to the SME sector.

Interested banks will be selected through a transparent bidding process to offer concessionary refinance facilities which would also carry partial risk coverage from Government of Pakistan. Banks winning through this bidding process will need to invest in human resources, technology, and processes to successfully develop expertise and capability to attract the SME finance market. In order to participate in SAAF, interested banks will submit Expressions of Interest (EOI) to SBP to build their SME loan portfolio during the three-year validity period of the scheme. The banks offering the largest portfolio size and the highest number of borrowers will be selected for participation.

SBP will encourage banks that partner with fintech's to provide an opportunity to innovative financing techniques in a cost-effective manner. Under the scheme, SBP will provide refinance for three years to the selected banks. After three years, refinance will be repaid by banks in ten equal yearly installments. Selected banks will get refinance from SBP at 1% p.a. and extend financing to SMEs at end user rate of up to 9% p.a which is very attractive compared to informal finance costs. Under SAAF, all SMEs that are new borrowers of a bank will be eligible to avail financing of up to Rs 10 million. The collateral-free (clean) financing will be available to SMEs for long term fixed capital investment and working capital finance requirements.

Shariah compliant Islamic modes of finance as well as conventional will be offered. An attractive feature of the scheme is that the Government of Pakistan will provide risk coverage of 40 to 60 percent to the selected banks against losses depending on the size of loans. This risk cover will be 60% for small loans up to Rs 4 million; 50% for midsize loans from above Rs 4 million to Rs 7 million and 40% for relatively large loans of Rs 7 million to Rs 10 million. This initiative will enable sustainable growth in SME Finance as it aims to address the core issues facing this important sector. Details of SAAF are available at ¹

¹ <https://www.sbp.org.pk/smeffd/circulars/2021/C9.htm>

2. Overview of the Scheme

SBP has adopted a new approach to enhance access to finance to Small and Medium Enterprises to overcome the challenges faced by SMEs in Pakistan. SMEs faced a number of challenges in getting credit from banks; lack of collateral and high delivery costs are considered the biggest challenges. In order to overcome these challenges, SBP is offering a ‘SME Asaan Finance’ (SAAF) scheme, wherein refinance and risk coverage both are being offered together. In the scheme, interested banks will bid for a subsidized facility with risk coverage. Banks winning the bid will invest in human resource, technology and processes to successfully develop expertise, capacity and capability to cater SME finance market. SBP will provide time bound refinancing for three years to the banks selected through a transparent bidding process. After three years, banks will repay the refinanced amount in ten equal yearly installments. The risk coverage will, however, be valid for a period of four years starting from launch of the scheme, in order to suitably cover loans extended during third year of the scheme.

The features of the scheme may be divided into two parts:

i. Facilitation for SMEs

(To accommodate the financing needs of faith sensitive borrowers, Shariah compliant alternate of the scheme i.e., ‘Islamic SME Asaan Finance’ (I-SAAF) has also been developed)

ii. Facilitation for interested Banks

(Commercial Banks and Islamic Banks)

3. Facilitation for SMEs

Particulars	SAAF -I
What is this Scheme is about	SBP is offering a ‘SME Asaan Finance’ (SAAF) scheme, wherein refinance and risk coverage both are being offered together.
Eligibility Criteria	<ul style="list-style-type: none"> All SMEs (new businesses as well as operative businesses) that are new borrowers of the participating banks are eligible. A single SME can, however, avail this facility from one bank only.
Mark Up Rate	<ul style="list-style-type: none"> 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 banks at 1 percent p.a. thereby, offering a spread of up to 8 percent p.a.
Who Can Apply	<ul style="list-style-type: none"> SMEs
Loan Period	
Financing Limit and Type	<p>Maximum financing, under the scheme, to a single SME will be capped at PKR 10 million.</p> <p>All types of loans i.e., term loans as well as working capital/running finance loans will be eligible.</p> <p>Loans may be secured against personal guarantees of the borrowers.</p>
Maximum Tenor of the loan	Maximum tenor of the loan will be as per financing facility approved by the participating bank.
Documents required to avail facility by Bank and Customer	<p>Undertaking to be obtained from bank under SME ASAAN FINANCE (SAAF) scheme</p> <p>Demand promissory note * to be submitted by bank</p> <p>Refinance application form to be submitted by the bank under SME ASAAN FINANCE (SAAF) scheme</p> <p>Borrower’s undertaking under the SME ASAAN FINANCE (SAAF) scheme</p>

4. Special Feature of the Scheme

To accommodate the financing needs of faith sensitive borrowers, Shariah compliant alternate of the scheme i.e., ‘Islamic SME Asaan Finance’ (I-SAAF) has also been developed.

5. Islamic SME Asaan Finance (I-SAAF) Scheme

Islamic SME Asaan Finance (I-SAAF) scheme has also been offered to Islamic Banking Institutions (IBIs) and referred to as Participating Islamic Banking Institutions (PIBIs) under the scheme. SBP shall make

Mudarabah investment in IBIs. SBP will act as Rab-ul-Maal by providing Mudarabah investment facility to the PIBIs, in the form of investment in IBI's general pool, and the IBI shall act as the Mudarib of general pool. The exposure of SBP under the scheme shall be on all assets of an IBI's general pool to the extent of SBP's investment in general pool, and therefore shall not be limited to the assets financed under the scheme

6. Scope and Eligibility

Particulars	SAAF for Islamic borrowers
Eligibility Criteria	<ul style="list-style-type: none"> All SMEs (new businesses as well as operative businesses) that are new borrowers of a PIBI will be eligible; an SME can avail this facility from only one bank.
Financing in local currency	<ul style="list-style-type: none"> The PIBIs shall provide local currency finance for all types of financing i.e. term financing as well as working capital/running finance.
Maximum Financing Limit	<ul style="list-style-type: none"> Maximum financing limit for single SME is capped at Rs 10 million.
Tenor of the Financing	<ul style="list-style-type: none"> Maximum tenor of financing extended to the customer will be as per terms & conditions of financing facility approved by the PIBI. The financing will be repaid on due dates agreed between the PIBI and the customer. The PIBIs will approve the borrowing limits of eligible customers (SMEs) keeping in view their credit requirements, cash flows, repayment capacity and risk profile.
Documents required to avail facility by Bank and Customer	<ul style="list-style-type: none"> Master Mudarabah Agreement Between State Bank of Pakistan And (Name Of PIBI) Mudarabah Agreement Between the State Bank of Pakistan And (Name Of PIBI) Mudarabah Investment Request Form Debit Authority Demand Promissory Note Undertaking To Be Submitted by the Customer



Section -II

SME Asaan Finance (SAAF) Scheme Procedures & Conditions for Banks to participate in the scheme

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7. Conditions for Commercial Banks to participate in the Scheme

SBP invites 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 for participation in the scheme. Maximum number of participating banks under the scheme, selected from following four categories, based on the criteria specified by SBP, will be eight:

- Large Banks
- Mid-sized Banks
- Small Banks

Any category of banks in collaboration with a Fintech

7.1. Risk Sharing

Under the scheme, Government of Pakistan will provide risk coverage of 40 percent to 60 percent on first loss portfolio basis 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 banks 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 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.

- 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 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.
- 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 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. Conditions for Islamic Banks to participate in the Scheme

8.1. Participating Islamic Banking Institutions (PIBIs)

All PIBIs including full-fledged Islamic banks and Islamic banking subsidiaries under permission of SBP (collectively referred to as PIBIs) may participate in the scheme by submitting an Expression of Interest (EOI) as announced by SBP for granting the status of PIBI. 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

8.2. Assigning Financing Limits for PIBIs

- i. SBP will allocate refinance limits to the selected PIBIs equal to the bids quoted by them under the scheme.
- ii. After the allocation of limit by SBP, PIBI shall submit application along with duly executed agreement for availing the facility (as per prescribed format I-SAAF -1) and ISAAF 1 - Annex) from SBP BSC Karachi Office.

8.3. Period of Investment and Payments

- i. The retirement of financial obligations/ redemption under the scheme shall be made by the customers from the date depending upon the tenure for which the facility is availed and underlying mode of Islamic finance used by PIBIs.
- ii. The Mudarabah investment made with the PIBIs shall mature on the due date agreed with SBP, and SBP is authorized to deduct outstanding balance of its investment in the general pool as per “Instructions for Profit & Loss Distribution and Pool Management for Islamic Banking Institutions” issued vide IBD Circular No. 3 dated November 19, 2012, as amended from time to time.

8.4. Disbursement of Funds from PIBIs to Customers

- i. The financing shall be allowed against a single or multiple underlying transaction(s), designed on the basis of Islamic modes of financing, approved by the Shariah Board of the concerned PIBI. The modes of finance will include all those modes listed in Section E of Annexure-I of IBD Circular No. 02 of 2008, as amended from time to time; including combination of those Islamic modes of financing (hybrid arrangements).
- ii. The PIBIs shall undertake due diligence process in accordance with their respective financing policies before sanctioning the facility subject to Prudential Regulations for SME financing.
- iii. The PIBIs shall reasonably ensure fulfillment of the pre-disbursement formalities by the customers through due diligence in accordance with their own internal arrangements to avoid mis-utilization of the facility through over invoicing, etc. while extending financing facilities to the customers.

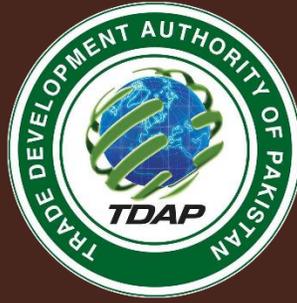
8.5. Repayment of Refinance

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

8.6. 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.



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