



External Relations Department

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SBP introduces innovative SME Asaan Finance scheme (SAAF) for lending to SMEs without collateral

The State Bank has introduced an innovative initiative to improve access to finance for Small and Medium Enterprises (SMEs) in collaboration with the Government of Pakistan with the express aim of enabling businesses who cannot offer security / collateral to access bank finance. This initiative has been brand named, 'SME Asaan Finance' or SAAF to emphasize the SME facilitation feature of this scheme to provide clean lending i.e. lending without collateral to SMEs. SAAF is a refinance and credit guarantee facility which has been developed through a wide-ranging consultative process and 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. Speaking about the collateral free lending scheme, Finance Minister, Mr Shaukat Tarin said "the MOF welcomes and supports this innovative initiative of the State Bank, which would enable SMEs without collateral to access bank finance. We look forward to seeing strong participation from commercial banks to take this initiative forward."

The SME sector plays a pivotal role in Pakistan's economy and is estimated by SMEDA to contribute 40% to GDP and 25% in export earnings. However, despite this SMEs find it difficult to access formal bank finance as SME financing stood at Rs 444 billion as of March 31, 2021 which is only 6.6 % of total private sector credit. This is due to several reasons including relatively higher loan losses, high costs bank finance models, low usage of appropriate technology needed for SME finance and the lack of acceptable security. SMEs therefore often turn to exorbitantly expensive informal credit and face impediments to growth. 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 Fintechs 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.



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Shariah compliant Islamic modes of finance as well as conventional will be offered. The scheme will be available to SME borrowers towards the end of September, 2021.

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.

It is expected that 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 <https://www.sbp.org.pk/sme/d/circulars/2021/C9.htm>
