

# 6 Export Finance Schemes

## 6.1 Overview

The management and implementation of SBP concessionary financing schemes like Export Finance Scheme (EFS), Islamic Export Refinance Scheme (IERS) and Long Term Financing Facility (LTFF) is another important task assigned to BSC. While SBP formulates and designs the schemes, the BSC implements the schemes through its field offices across the country. Besides extending concessionary funds to exporters through their banks under the above mentioned schemes, the BSC offices also conduct onsite verification of EFS cases at banks' branches in their jurisdiction to check misuse of funds as also to ensure compliance with the provisions of the schemes. The onsite verification of Part II cases was also initiated during the year besides making the onsite verification an annual exercise<sup>1</sup>. Further, to improve the efficiency of the onsite verification process, standardized formats of the Annexure used in the bank-wise consolidated verification reports were developed during the year. This would not only bring standardization and uniformity in the verification process across the BSC offices but would also save time in preparation of bank-wise consolidated verification reports at HOK level.

## 6.2 Major Modifications/ Changes in the Schemes during FY09

Being responsive to the changing national and international economic scenario, the SBP introduced a number of modifications in its financing schemes to facilitate the exporters in maintaining and improving the competitiveness of their products in international markets. The following paragraphs briefly discuss the major initiatives taken and or modifications made in the schemes:

### 6.2.1 Modifications in EFS / IERS

**Provision of 100% Refinance by SBP:** Considering the tight liquidity conditions in interbank market particularly during the second quarter of FY09, SBP allowed banks to claim 100% refinance of the financing facilities extended to exporters under EFS; the refinancing by SBP was reduced to 70% last year (FY08) to minimize the EFS implications on SBP monetary expansion targets.

**Revision of Procedure for Refund of Fine under EFS:** It is mandatory for the exporters to show specific performance under EFS; viz shipments to the extent of 100% of the total loan amount availed under Part-I and matching export performance on daily borrowing basis under Part-II; the non-performance thereof attracts fine as per rules. Previously the exporters having the nonperformance due to factors beyond their control used to apply to SMEFD SBP through BSC field offices for refund of such fines. The procedure was revisited during the year to improve efficiency in the claims processing and the exporters were requested to submit their refund claims directly to SMEFD along with the documentary evidences.

**Extension in Period under EFS Part-I:** To further facilitate the exporters, the period under Part-I of EFS/ IERS was extended to 270 days from 180 days. Though the banks would adjust the finance within a maximum period of 180 days as per earlier practice, however would allow rollover for an additional period of 90 days provided shipment is made within 180 days after withdrawal of the finance and shipping documents/Annexure D is submitted to the bank.

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<sup>1</sup> Earlier the verification was conducted on six monthly basis; the consolidated report was however prepared on annual basis by consolidating the findings of the two verification exercises.

**Performance based Mark-up rates under the Export Finance Scheme:** Though the EFS rates were already quite low, to help the exporters in a difficult and challenging scenario in the international markets, the mark up rates on EFS Part-II were further lowered for high performers. The mark-up rates to be charged on the basis of export performance with no export overdue bills are given in **Table 6.2.3**.

Table 6.2.3 Performance based Mark-up rates under Part-II the scheme	
Performance Requirement	Mark-up Rate for Borrower
2.00 to 3.00 times	7.5% p.a. (Standard EFS Rate)
3.01 to 4.00 times	7.0% p.a.
4.01 to 5.00 times	6.5% p.a.
Above 5.0 times	6.0% p.a.

Further, the export performance requirement under EFS Part-II for Hand Knotted Carpets for FY09 was reduced to 1.5 times of the finance availed from 2.0 times for the exporters.

## 6.2.2 Modifications in LTFF

**Provision of 100% Refinance by SBP:** Like EFS, the refinancing of LTFF loans was increased to 100% during the year and banks were allowed to claim 100% refinance of the loans extended to exporters under LTFF; the refinancing by SBP was reduced to 70% last year (FY08) to minimize the LTFF implications on SBP monetary expansion targets.

**Grace Period in Repayment of LTF-EOP Debt Swap Facility and LTFF:** Keeping in view the problems faced by the exporters due to international financial meltdown as well as local energy crisis, a grace period of up-to one year in repayment of principal was allowed to the LTF-EOP and LTFF borrowers having satisfactory operations in their accounts and banks are otherwise comfortable with the overall quality of the loan and risk profile of the borrower(s).

**Expansion in LTFF Coverage to more sectors:** In order to extend the benefits of concessional long term financing to more sectors, the export oriented projects of Ethanol, Furniture and Pharmaceuticals were allowed 100% financing under LTFF. Further, 50% financing under LTFF was also allowed for a) projects for regeneration of textile waste into usable fiber, b) imported second hand plant & machinery for eligible sectors, c) import of generators/captive power plants for export oriented project not falling in the existing eligibility list, and d) 6 sub-sectors/processes of Spinning Sector viz. Doubling, Twisting, Combing, Slubbing, Lycra, & Yarn Dyeing. For the projects eligible for 50% financing, SBP would refinance 50% of the loans to be provided by banks/ DFIs under the scheme, whereas the remaining 50% will be financed by banks/ DFIs from their own sources at lending terms as agreed with the borrowers.

**Swap of Long Term Plant & Machinery Loans with LTFF Loan:** In order to facilitate the export oriented industries to overcome the prevailing crises and to maintain their competitiveness in the international markets, a one time opportunity was given to the exporters (excluding Textile & Garments) to refinance their outstanding long term loans taken for import/purchase of plant & machinery with the LTFF loans.

**Eligibility of LCs established before LTFF announcement:** Letters of Credit established for import of plant & machinery for the eligible sectors before the announcement of the LTFF Scheme and retired after June 30, 2007 excluding LCs retired through own sources of the sponsors were also allowed for refinancing under the LTFF.

## 6.3 Implementation of EFS and LTFF etc by BSC

The BSC implements and manages the EFS and other credit schemes like IERS, LTF-EOP and LTFF etc through its field offices. The banks disburse funds under the schemes and claim reimbursement there-against from BSC field offices to the extent of limits assigned to each bank by SMEFD, SBP. The BSC field offices process the refinance requests within 48 hours from the date of receipt of the claims complete in all respect, maintains the loan accounts and recover principal amount and profits etc on the respective due dates.

### 6.3.1 Conventional Export Finance Scheme – Part I & II

The EFS is a short term financing scheme under which the exporters can avail loans for export of eligible commodities for a period of 180/ 270 days. The Part I is a transaction based facility whereas Part II is a performance based facility wherein a revolving finance limit equivalent to 50% of export performance during the previous year is sanctioned to the exporters. Exporters having availed refinance under the scheme have to export eligible goods & realize export proceeds and submit the evidence of shipment/ realization within the prescribed period. In case of any default or non/ short/ delayed shipment, the exporters are liable to pay prescribed fines. Commercial banks are required to repay the refinance provided by BSC on realization of export proceeds within three working days from realization or from their own sources on maturity of the loan.

A total of 77,414 cases relating to grant, repayment and remuneration (share of profit) were processed by the BSC field offices under EFS during the current financial year as against 92,927 cases processed during 2007-08. Though the number of cases processed has decreased during the current year, quantum in terms of amount outstanding has shown a substantial increase of around 77% as discussed in the following paragraphs [For detail see Table 6.3.1 (a) & (b)].

S #	Description of transaction	2007-08	2008-09
1	Grant	25,524	22,587
2	Repayment	31,011	22,662
3	Remuneration	36,392	32,165
<b>Total</b>		<b>92,927</b>	<b>77,414</b>

Office	Grant		Repayment		Remuneration (Share of Profit)		Fine		Refund	
	2007-08	2008-09	2007-08	2008-09	2007-08	2008-09	2007-08	2008-09	2007-08	2008-09
Faisalabad	2,750	2,832	3,021	2,938	3,021	5,906	1,908	2,515	263	205
Gujranwala	423	363	539	448	1,219	982	125	139	-	28
Hyderabad	11	8	19	11	11	19	14	10	2	1
Islamabad	103	110	150	163	231	252	65	35	31	2
Karachi	15,023	12,271	19,257	12,725	16,165	11,626	10,908	12,598	1,020	1,772
Lahore	4,326	4,142	4,834	3,721	8,582	6,538	6,384	5,680	833	878
Multan	33	55	43	36	112	92	43	40	2	-
Muzaffarabad	1	-	2	-	4	-	1	-	-	-
Peshawar	50	48	56	48	99	89	26	21	1	4
Quetta	8	5	7	3	15	12	-	9	-	-
Rawalpindi	77	60	63	27	156	121	68	78	23	29
Sialkot	2,156	2,095	2,461	1,940	5,821	5,447	327	1,150	22	11
Sukkur	563	598	559	602	956	1,081	192	216	15	15
<b>Total</b>	<b>25,524</b>	<b>22,587</b>	<b>31,011</b>	<b>22,662</b>	<b>36,392</b>	<b>32,165</b>	<b>20,061</b>	<b>22,491</b>	<b>2,212</b>	<b>2,945</b>

### 6.3.2 Islamic Export Refinance Scheme

Islamic Export Refinance Scheme (IERS) is also a short term facility operating in two parts viz. Part-I & Part-II, designed to cater to the requirements of exporters who want to avail finances under Shariah compliant modes. The refinance rate is not fixed under IERS, however in order to provide a level playing field to such exporters, the Islamic Banks are required to ensure that the profit on IERS does not exceed the rates prescribed by SBP under the conventional EFS.

S #	Description of transaction	2007-08	2008-09
1	Grant	670	949
2	Repayment	863	812
3	Remuneration	1,107	1,197
<b>Total</b>		<b>2,640</b>	<b>2,958</b>

During the year under review, a total of 2,958 transactions regarding grant, repayment of loan and remuneration (share of profit) under IERS were processed by the field offices of BSC as against 2,640 cases during FY08. [For details see Tables 6.3.2

### 6.3.3 Long Term Financing Facility

To promote export led industrial growth in the country, SBP introduced a fixed rate Long-Term Financing Facility (LTFF) with effect from 1<sup>st</sup> January, 2008 by merging Long Term Financing for the Export Oriented Projects (LTF-EOP) and Long Term Financing for Locally Manufactured Machinery (LMM). The facility provides necessary long

S #	Description of transaction	2007-08	2008-09
1	Grant	26	295
2	Repayment	30	37
3	Remuneration	21	75
<b>Total</b>		<b>77</b>	<b>407</b>

term finance up-to 10 years to eligible exporters for adoption of new technologies and modernizing their plant and machinery.

During FY09 the BSC field offices processed a total of 407 transactions under this scheme as compared to 77 transactions handled during the preceding year. [For details see **Tables 6.3.3 (a) & (b)**]

<b>Table 6.3.3 (b) Transactions executed/ processed under LTF</b>						
<b>Office</b>	<b>Grant</b>		<b>Repayment</b>		<b>Remuneration</b>	
	<b>2007-08</b>	<b>2008-09</b>	<b>2007-08</b>	<b>2008-09</b>	<b>2007-08</b>	<b>2008-09</b>
Faisalabad	-	24	-	-	-	-
Islamabad	-	4	-	-	-	-
Karachi	23	248	30	35	18	45
Lahore	3	12	-	2	3	15
Multan	-	6	-	-	-	11
Sialkot	-	1	-	-	-	4
<b>Total</b>	<b>26</b>	<b>295</b>	<b>30</b>	<b>37</b>	<b>21</b>	<b>75</b>

### 6.3.4 Long Term Financing for Export Oriented Projects

The LTF-EOP Scheme became non-operational after the launch of LTF in January, 2008. A total of 4,799 transactions of already outstanding cases were processed during the year as against 6,396 processed in the preceding year. [For details see **Tables 6.3.4**]

<b>Table 6.3.4 Summary of cases processed under LTF--EOP</b>			
<b>S #</b>	<b>Description of transaction</b>	<b>2007-08</b>	<b>2008-09</b>
1	Grant	251	3
2	Repayment	1,867	1,559
3	Remuneration	4,278	3,237
<b>Total</b>		<b>6,396</b>	<b>4,799</b>

### 6.3.5 Amount Outstanding under SBP Financing Schemes

The loans outstanding against various SBP schemes grew significantly (about 53%) during the year from Rs.143.995 million as of 30<sup>th</sup> June 08 to Rs. 220.005 million as on 30<sup>th</sup> June 09. The increase may be attributed mainly to reverting from 70% to 100% refinance by SBP. The Tables 6.3.5 below gives the BSC field offices wise detail of amount outstanding under SBP financing schemes.

<b>Table 6.3.5 Amount Outstanding under various Financing Schemes</b>								
<b>Field Office</b>	<b>Conventional EFS &amp; LMM</b>		<b>Islamic Export Refinance Scheme</b>		<b>Long Term Financing for Export Oriented Projects</b>		<b>Long Term Financing Facility</b>	
	<b>30-06-2008</b>	<b>30-06-2009</b>	<b>30-06-2008</b>	<b>30-06-2009</b>	<b>30-06-2008</b>	<b>30-06-2009</b>	<b>30-06-2008</b>	<b>30-06-2009</b>
	<i>(Rupees in millions)</i>							
Faisalabad	18,546.86	31,888.81	1,262.17	1,862.60	5,384.44	4,337.01	-	761.65
Gujranwala	3,400.93	4,460.58	7.20	8.99	-	-	-	-
Hyderabad	16.1	2.80	-	-	-	-	-	-
Islamabad	210.78	894.00	63.00	90.00	53.89	43.12	13.98	33.93
Karachi	50,603.00	90,800.00	3,055.00	3,358.00	18,735.00	16,148.00	529.00	4,036.00
Lahore	17,792.40	34,147.10	659.02	960.16	10,220.63	7,896.91	250.39	450.79
Multan	415.28	760.05	-	-	4,087.37	3,859.35	-	319.20
Peshawar	487.43	741.03	-	-	63.68	44.90	-	-
Quetta	4.90	180.00	-	-	-	-	-	-
Rawalpindi	532.41	1,410.58	70.00	100.00	72.33	45.57	-	-
Sialkot	7,139.43	9,888.06	124.49	215.30	13.82	13.82	-	-
Sukkur	181.00	245.00	-	-	-	-	-	1.38
<b>Total</b>	<b>99,330.52</b>	<b>175,418.01</b>	<b>5,240.88</b>	<b>6,595.05</b>	<b>38,631.16</b>	<b>32,388.68</b>	<b>793.37</b>	<b>5,602.95</b>

### 6.3.6 On-site Verification of Export Finance Cases

With a view to ensure that the funds availed by the exporters are not misutilized and the banks are observing the instructions while extending the finance, the BSC also conducts onsite verification of EFS cases at banks' branches across the country. Previously On-Site Verification was restricted only to EFS/ IERS Part-I cases, however from FY09 the scope of verification has been extended to Part II cases as well. The Central EFS Verification Unit at DFSD, HOK manages and monitors the entire process right from issuance of the verification schedule till the finalization and submission of consolidated bank-wise reports to SMEFD SBP. The division during the year developed standardized formats/ templates of Annexure on spread sheets to bring standardization and uniformity in the verification process across all the offices and also to enhance the efficiency of the verification process.

During FY09, the verification teams of BSC field offices visited 277 bank branches across the country and examined 12,715 Part I cases leading to imposition & recovery of penalty amounting Rs.14.67 million as against

279 branches visited, 14,581 cases verified and Rs.21.89 million penalty recovered in the last year. [see Table 6.3.6(a)]. Moreover fine amounting Rs.2.05 million was also recovered by the verification teams on account of irregularities identified during the verification of 6,731 Part-II cases of the schemes at 261 branches during the current year. Year-wise detail of is given in Table 6.3.6(b) below:

Table 6.3.6 (a) Summary showing the Verification Data				
S #	Description	Under Part-I		Under Part-II
		2007-08	2008-09	2008-09
1	Bank Branches Visited	279	277	261
2	Cases Verified	14,581	12,715	6,731
3	Fine Recovered	21,895,966	14,671,059	2,055,704

Table 6.3.6 (b) On-site Verification of EFS cases										
S #	Office	Under EFS Part-I						Under EFS Part-II		
		Bank Branches Visited		Number of Cases Verified		Fine Recovered (Rs.)		Bank Branches Visited	Number of Cases Verified	Fine Recovered (Rs.)
		2007-08	2008-09	2007-08	2008-09	2007-08	2008-09			
1	Faisalabad	53	54	932	796	1,165,782	785,591	33	1,398	516,000
2	Gujranwala	24	10	117	44	339,814	5,100	8	48	300
3	Hyderabad	2	2	6	5	-	-	-	-	-
4	Islamabad	10	5	31	38	-	-	5	21	-
5	Karachi	104	107	10,292	9,372	9,536,583	8,231,937	73	1,940	1,045,580
6	Lahore	76	83	2,915	2,366	10,838,608	5,629,341	74	798	51,900
7	Multan	1	1	10	3	-	-	7	29	-
8	Peshawar	1	-	2	-	-	-	26	49	-
9	Quetta	-	-	-	-	-	-	3	4	5,300
10	Rawalpindi	2	6	10	43	-	18,990	9	37	-
11	Sialkot	2	8	2	5	5,100	100	22	2,368	436,624
12	Sukkur	4	1	264	43	10,079	-	1	39	-
<b>Total</b>		<b>279</b>	<b>277</b>	<b>14,581</b>	<b>12,715</b>	<b>21,895,966</b>	<b>14,671,059</b>	<b>261</b>	<b>6,731</b>	<b>2,055,704</b>

The Central EFS Verification Division compiled and submitted 24 bank-wise consolidated EFS verification reports to SMEFD by 30<sup>th</sup> June 09 as against 21 reports compiled and submitted last year.