

Chapter # 3

Export Finance Scheme.....

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EXPORT FINANCE SCHEME

3.1 Overview

The Export Finance Scheme (EFS) was introduced in 1972 to ensure provision of adequate bank financing for promotion of exports of non-traditional and newly emerging commodities. Over the years the scope of the scheme has been enlarged and presently manufactured goods having more value addition are eligible for financing under the scheme, whereas some of the similar goods having less value addition are ineligible for financing under the scheme thereby ensuring optimum utilization of the scheme. The scheme operates on reimbursement basis and commercial banks having disbursed the facilities to the exporters can avail reimbursements against such disbursement from the designated offices of the BSC to the extent of the limits assigned to each bank, on an overall basis, by the Small and Medium Enterprises Department (SMED) of SBP. To facilitate the operational issues the segregation of the overall limit assigned to each bank by the SMED, is normally allowed by the office of the BSC where the head office / principal office of the commercial bank is located.

At present the scheme operates in two parts viz; Part-I and Part-II. Under Part-I, BSC provides financing facilities to the exporters for exports of the eligible goods on case to case basis, thus this part operates on transaction basis. Under this part an exporter can obtain finance for export of eligible commodities on pre-shipment as well as post shipment basis. Under Part-II of the scheme, each exporter is assigned a limit by the office of the BSC on the basis of his last year's export performance in respect of eligible commodities. Commercial banks, after providing finance to the exporter become eligible to avail refinance from the field offices of BSC. As the Part-I works on transaction basis, initially exporters as also banks were required to submit multiple documents, both at the time of availing finance and reporting shipment of the goods (in pre-shipment cases) were prescribed by SBP for the purpose. However with a view to facilitate exporters, the documentation requirements as also procedure for availing financing facilities under Part I of the scheme have been simplified and effective 2001 the field offices of the BSC grant refinance on the basis of fewer number of documents albeit they have now been authorized to conduct on-site verification of the cases of export finance granted by the branches of the commercial banks falling in their respective jurisdiction.

In order to provide incentives to all sectors of the economy contributing to exports, the EFS have been modified to allow banks to extend financing facilities to indirect exporters. Indirect exporters, who manufacture or supply inputs i.e. material and goods to a direct exporter which can be used for further processing and exported, are eligible to avail finance from banks under the scheme at pre-shipment stage. Efforts have also been made to ensure that the small, medium and emerging exporters have adequate access to the credit facilities under the EFS.

The total amount of financing by BSC against firm export order or letter of credit to both direct and indirect exporters is equivalent to the value of the Firm Export Order or the Export Letter of Credit in case of direct exporters and Standardized Purchase Order or Inland Letter of Credit in case of Indirect Exporters. The financing facilities under the scheme are available for a period of 180 days to direct exporters and up to 120 days for indirect exporters. However, where facilities against a particular firm export order / export letter of credit are availed both by direct and indirect exporter, the combined period does not exceed 180 days. To facilitate the exporters as also banks a negative list has also been prescribed that contain the particulars of the commodities, which do not qualify for financing facilities under the Scheme.

3.2 Role of BSC in Credit Disbursements under Export Finance Scheme

The field offices of the BSC are the implementing arms of the SBP in respect of the policy formulated by the SBP relating to EFS. These field offices are actively engaged in disbursements of refinance under the Scheme within 48 hours as also to ensure that the refinance so granted is recovered by debit to the account of the concerned commercial bank on the respective due date.

In order to provide level playing field to the Islamic Commercial Banks as also dedicated Islamic Commercial banking branches of the conventional banks, the SBP had designed an Islamic Export Refinance Scheme (IERS) which helps these institutions to provide export finance to exporters under Shariah Compliant modes. Our field offices have also been providing adequate support to SBP in providing refinancing facilities under the IERS.

Fourteen out of sixteen field offices of the BSC provided refinancing facilities under the Export Finance Scheme, whereas refinance facilities under IERS were provided by five offices. It may be pointed out that the commercial banks can obtain refinancing facilities from any of our field offices depending upon the cities in which branches of these commercial banks are functioning.

During the year under review our field offices processed 30,001 transactions relating to grant of refinance and 36,044 transactions relating to recovery of refinance so granted along with realization of remuneration on quarterly basis from banks. Besides processing transactions relating to the grant and recovery of refinance to the commercial banks, our field offices are also executing other activities relating to the implementation of the EFS such as verification of EFS cases, imposition of penalties, refund of fine, preservation of record relating to the scheme etc. Office-wise position of cases processed and executed during the financial year ending June 2005 is given in the following tables:

Table 3.2.1 Cases Processed Under Export Finance Scheme

S #	Office	2003 - 04						2004 - 05					
		No of Transactions Executed / Processed Concerning Flows under EFS			No of Transactions Involving		Cases Processed under Procedure for Refund of Fine	No of Transactions Executed / Processed Concerning Flows under EFS			No of Transactions Involving		Cases Processed under Procedure for Refund of Fine
		Grant	Repayment	Remuneration	Fine	Refund		Grant	Repayment	Remuneration	Fine	Refund	
1	Bahawalpur	-	-	-	-	-	-	4	-	4	-	-	-
2	Faisalabad	3,397	3,509	3,573	1,350	147	3	3,477	3,614	3,694	1,446	178	4
3	Gujranwala	547	591	784	151	37	37	526	551	768	169	51	51
4	Hyderabad	34	22	35	54	20	20	26	16	27	38	11	11
5	Islamabad	229	243	243	215	40	40	160	179	179	179	57	57
6	Karachi	15,248	18,669	36,968	4,291	540	20	16,523	21,351	39,953	5,474	684	6
7	Lahore	5,647	7,709	13,865	3,196	753	4	5,958	7,200	12,539	3,821	740	9
8	Multan	63	156	364	19	6	6	46	76	196	14	1	1
9	Muzaffarabd	1	-	1	-	-	-	2	2	4	-	-	-
10	Peshawar	47	53	143	5	1	1	54	55	143	8	1	1
11	Quetta	6	6	20	7	1	2	7	6	19	9	3	4
12	Rawalpindi	113	107	269	90	31	31	100	106	233	73	65	65
13	Sialkot	1,873	1,730	4,825	362	39	6	2,699	2,433	6,582	522	25	-
14	Sukkur	318	300	775	-	-	-	419	455	785	4	-	-
Total		27,523	33,095	61,865	9,740	1,615	170	30,001	36,044	65,126	11,757	1,816	209

Table 3.2.2 Cases Processed Under Islamic Export Refinance Scheme (IERS)													
S #	Office	2003 - 04						2004 - 05					
		No of Transactions Executed / Processed Concerning Flows under IERS			No of Transactions Involving		Cases Processed under Procedure for Refund of Fine	No of Transactions Executed / Processed Concerning Flows under IERF			No of Transactions Involving		Cases Processed under Procedure for Refund of Fine
		Grant	Repayment	Remuneration	Fine	Refund		Grant	Repayment	Remuneration	Fine	Refund	
1	Faisalabad	28	9	13	4	1	-	61	44	48	-	-	-
2	Karachi	50	98	121	12	6	6	67	99	185	2	-	-
3	Lahore	8	8	22	-	-	-	23	24	46	3	-	-
4	Multan	5	-	3	-	-	-	8	9	16	-	-	-
5	Sialkot	-	-	-	-	-	-	24	7	41	-	-	-
Total		91	115	159	16	7	6	183	183	336	5	0	0

Table 3.2.3 Amount Outstanding under Export Finance Schemes							
S #	Office	Amount Outstanding as on (Rs. in million)					
		Conventional EFS (Part-I, II & LMM)		Islamic Export Refinance Scheme (IERS)		Long Term Financing for Export Oriented Projects (LTF - EOP)	
		30-06-2004	30-06-2005	30-06-2004	30-06-2005	30-06-2004	30-06-2005
1	Bahawalpur	-	9.6	-	-	-	-
2	Faisalabad	15,989.6	19,944.2	536.0	1,076.0	-	-
3	Gujranwala	2,177.7	2,784.2	-	-	-	-
4	Hyderabad	40.8	111.0	-	-	-	-
5	Islamabad	1,258.6	1,072.6	-	-	-	-
6	Karachi	46,705.3	57,441.6	611.7	1,266.3	-	388.4
7	Lahore	18,543.0	20,660.7	370.0	175.5	-	-
8	Multan	625.8	642.4	270.0	216.5	-	-
9	Muzaffarabad	2.4	3.3	-	-	-	-
10	Peshawar	214.8	303.7	-	-	-	-
11	Quetta	3.5	12.5	-	-	-	-
12	Rawalpindi	96.0	146.5	-	-	-	-
13	Sialkot	6,633.3	8,616.2	-	169.0	-	-
14	Sukkur	233.3	215.4	-	-	-	-
Total		92,524.2	111,963.9	1,787.7	2,903.3	0.0	388.4

3.3 Scheme for Long Term Financing of Export Oriented Projects

In order to facilitate the exporters to obtain medium to long term financing facilities from banks in Pakistan at competitive rate for their export oriented projects, the SBP launched a new scheme called “Scheme for Long Term Financing of Export Oriented Projects (LTF-EOP)” in 2004. The scheme envisages provision of financing for import of machinery, plant, equipment and accessories etc (not manufactured locally) for all sectors of industries except spinning¹. The basic objective of the scheme is to support the capacity building of exporters especially those belonging to SME sector. For the purpose the SBP has advised the eligible banks to participate under the Scheme to ensure that facilities provided under the scheme to large exporters does not exceed 50 percent of the limits earmarked in their favour. The borrowing exporters are required to ensure that at least 50 percent of their annual production is exported directly or indirectly. The borrowers having export overdue bills of more than 365 days are not entitled for financing under the scheme. An important feature of the scheme is multiple pricing options on the basis of period of financing. Besides, the scheme is a window of financing for intangible products like brand name acquisition. The rates of mark up, under the scheme are linked with the weighted average yield on 12 months T-Bills as well as PIBs of 3 years and of 5 years maturity. Banks and DFIs approved as Participating Financial Institution while working as an interface will undertake the credit risk and thus can earn a spread up to 3 percent. Effective March 01, 2005 SBP has fixed following rates of service charges under the scheme which shall be applicable up to February 28, 2006:

Table 3.3 Rate of Refinancing under (LTF-EOP) for Banks/ DFIs	
Tenure	Rate of Refinance for Banks/DFIs
For borrowers requiring financing up to 2 years	4 percent p.a.
For borrowers requiring financing over two years but up to 3 years	4 percent p.a.
For borrowers requiring financing for period over three years and up to maximum period prescribed under the scheme ie 7-1/2 years	5 percent p.a.
<i>Note: BSC shall be entitled to earn a maximum spread of 3 percent on financing provided by them.</i>	

Under the Scheme the field offices grant refinance to banks against disbursements made by them to the exporters subject to grant of prior approval by the SME Department of SBP. During the year under review, eight cases were received from different commercial banks against which a total refinance of Rs.388 million was granted by BSC, Karachi office.

3.4 Rate of Refinance under Export Finance Schemes

Rate of refinance under EFS and LTF-EOP remained low during the period under review to facilitate exporters and encourage them to enhance their export capacity through financing from commercial banks against the said schemes. The SBP provides funds under IERS on Profit and Loss Sharing under Musharika arrangements. The profit earned under these arrangements when annualized, have been slightly higher than the remuneration received under EFS.

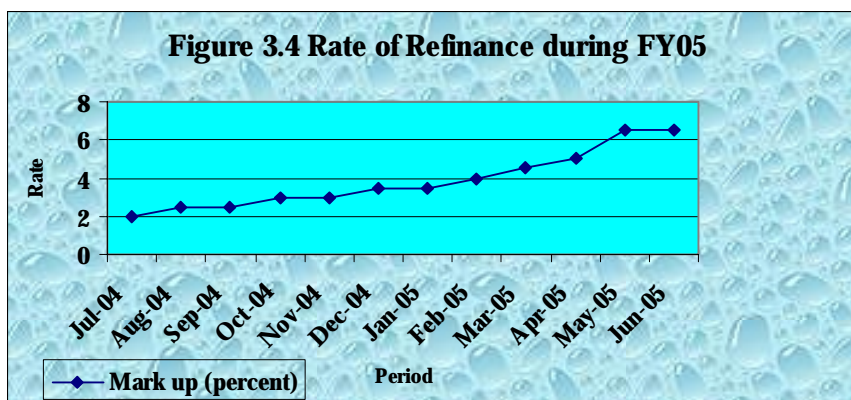
The rate of refinance on EFS began to increase gradually at the start of the financial year, which was in line with the interest rate policy of the SBP. Similarly a sharp rise in rate of refinance towards the end of the financial year was also in line with the increase in interest rate structure.

The changes in the rate of refinance on EFS during the period under review can be observed from the following table:

¹ At the time of launch of the scheme the weaving sector was also ineligible for financing under the scheme.

Table 3.4 Rate of Refinance during FY05

Period	Mark up (in percent)
July 2004	2.0
August 2004	2.5
September 2004	2.5
October 2004	3.0
November 2004	3.0
December 2004	3.5
January 2005	3.5
February 2005	4.0
March 2005	4.5
April 2005	5.0
May 2005	6.5
June 2005	6.5

Figure 3.4 Rate of Refinance during FY05

3.5 Verification of Cases under Export Finance Scheme

With a view to ensure that banks have been using funds under the EFS for the purposes as defined under the Scheme the SBP also instituted the provision of on-site verification of the refinance cases under EFS by the field offices of the BSC. This was done as a part of reduction in the documentations under Part-I of the Scheme in 2001. With a view to make the verification process uniform and objective, the SBP also introduced a system of on-site verification of refinance cases under EFS by the field offices of the BSC. The verification procedure also contains “Irregularities Mitigation Program” aiming to ensure that the irregularities committed by the commercial bank branches during the verification period are not recurred in future.

BSC field offices carried out random on-site verification of cases for which refinance was granted to banks under EFS and examined the entire documents during the year under review. In order to develop capacity among the staff of the field office to undertake verification assignments the management of the BSC has embarked upon a training program for its functionaries. It is expected that once the skill gaps in this regard are addressed to the verification process shall be revitalized. In order to achieve the desired results in this regard a “Central EFS Verification Unit” has also been created in the BSC in the first quarter of the 2005-06.