

3 EXPORT FINANCE SCHEME

3.1 Overview

State Bank of Pakistan has been striving to ensure that the credit requirements of the genuine exporters from the banking system are not effected. In order to ensure smooth flow of credit to the genuine exporters the SBP has introduced certain credit schemes. These credit schemes for the export sector have contributed to substantial increase in foreign exchange earning of the country. To facilitate this vital sector of the economy, SBP has formulated Export Finance Scheme (EFS), Islamic Export Refinance Scheme (IERS) and Scheme for Long-Term Financing for the Export Oriented Projects (LTF-EOP) and providing refinance to banks under these schemes. EFS is playing an important role in promotion of country's exports particularly export of non-traditional items. The scheme is divided in two parts viz Part-I and Part-II. All operational matters of EFS are being managed by the field offices of BSC. Under the EFS, commercial banks after disbursing the loan to the exporter approach the field office of BSC for reimbursement of the same loan. This financing facility is provided for a period of 180 days to direct exporter and up to 120 days for indirect exporter. SBP has formulated IERS keeping in view recent developments relating to introduction of specialized Islamic banking institutions. This scheme is being utilized by the dedicated branches of the commercial banks providing the Islamic banking products and services. These branches are availing refinance from the BSC field offices against finance provided by them to exporters for eligible commodities. In order to help exporters in import of machinery and up-grading existing technology, the SBP has introduced LTF-EOP in recent past. The scheme allows eligible financial institutions to provide financing facilities to borrowers on attractive terms and conditions for import of plant, machinery, equipments and accessories by export-oriented units. Field offices of BSC also undertake random on-site verification of export refinance cases and examine the entire documents in their respective jurisdiction. The purpose of this exercise is to verify that the funds availed by the commercial banks from the SBP have been used for the purpose they were disbursed to them and the banks are observing the terms and conditions laid down in the scheme while extending the loan.

3.2 Role of the BSC in Credit Disbursement under Export Finance Scheme

The rules relating to EFS are formulated by the SBP while field offices of BSC are responsible for implementation of the scheme. The field offices of BSC provide refinance to the banker of the exporter and release the amount within 48 hours on receipt of the refinance claim complete in all respect. These offices also ensure recovery of loan amount on the respective due date by debit to the account of the concerned commercial bank. Field offices of BSC are also entrusted with the responsibility to carry out on-site verification of export refinance cases under Part I of the scheme handled by the commercial bank branches. At present 13 field offices are providing the refinance facility to the commercial banks against financing provided by them to the exporters for the export of eligible commodities.

3.2.1 Conventional Export Finance Scheme (Part I & II)

Under Part I of the scheme, the finance is admissible on a case to case basis. An exporter who has a firm export order or contract or letter of credit for export of any eligible commodity can obtain pre-shipment loan finance from his banker for 180 days. After disbursing the finance to the exporter, the bank is eligible to avail refinance from the concerned office of the BSC. Under Part I the exporter can also obtain finance for export of eligible commodities on post shipment basis. The exporters are under obligation to produce relevant shipping documents to their banker within the prescribed period failing which fine is levied as prescribed under the scheme for non shipment. In case the exporter is unable to export goods due to any reason, he is allowed to substitute old contract or letter of credit with a new contract or letter of credit and export the same or different eligible goods to the same or other buyers provided he had not availed finance against such new contract or letter of credit.

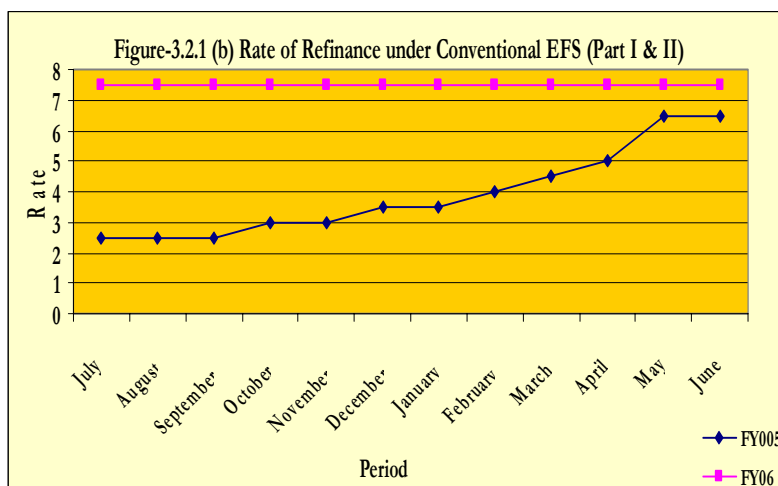
Under Part II of the scheme, a limit equal to 1/2 of the proceeds realized during the previous year is allowed on revolving basis against such realization reported on EE Statement duly verified by the Foreign Exchange Operations Department. The exporter is under obligation to realize export proceeds equal to 2 times during the relevant financial year on EF Statement prescribed for the purpose. In case of failure to realize matching export proceeds, exporter is required to pay fine as prescribed for the non performance. During FY06 our field offices processed 28,032 transactions relating to grant of refinance and 35,110 transactions relating to repayment of loan along with realization of remuneration (share of profit) on quarterly basis from banks {Table 3.2.1 (a)}.

Table 3.2.1 (a) Cases Processed under Export Finance Scheme

Office	No. of Transactions Executed / Processed relating to Flows under EFS						No. of Transactions Involving				Cases Processed under Procedure for Refund of Fine	
	Grant		Repayment		Remuneration		Fine		Refund			
	2004-05	2005-06	2004-05	2005-06	2004-05	2005-06	2004-05	2005-06	2004-05	2005-06	2004-05	2005-06
Faisalabad	3477	2851	3424	2910	5721	6153	1446	1534	166	259	-	-
Gujranwala	526	477	551	582	768	1045	169	194	51	29	-	-
Hyderabad	26	32	37	34	52	50	26	25	10	9	-	-
Islamabad	160	216	179	147	179	142	179	92	57	14	-	-
Karachi	16,523	16,049	21,351	21,329	39,953	38,996	5,474	6,936	684	1,067	6	-
Lahore	5,958	5,172	7,200	7,030	12,539	10,793	3,821	3,544	740	551	4	6
Multan	46	36	50	51	88	127	202	28	4	1	1	-
Muzaffarabad	2	3	3	2	4	5	-	-	-	-	-	-
Peshawar	48	57	27	29	127	21	34	37	3	-	-	-
Quetta	7	6	6	6	6	6	2	1	-	-	-	-
Rawalpindi	100	83	100	61	297	126	64	103	23	45	-	-
Sialkot	2,653	2,681	2,649	2,667	6,582	7,201	522	412	25	12	-	2
Sukkur	414	369	441	262	792	755	16	20	-	1	4	5
<i>Total</i>	<i>29,940</i>	<i>28,032</i>	<i>36,018</i>	<i>35,110</i>	<i>67,108</i>	<i>65,420</i>	<i>11,955</i>	<i>12,926</i>	<i>1,763</i>	<i>1,988</i>	<i>15</i>	<i>13</i>

Rate of refinance under the conventional EFS remained unchanged at 7.5 per cent per annum during FY06. Contrary to constant of refinance rate throughout FY06 the year FY05 witnessed a gradual increase from 2.0 per cent per annum in July 2004 to 6.5 per cent in June 2005. The higher rate of refinance during period under review reflected tight monetary policy maintained by the SBP throughout FY06. The rate of refinance in LTF-EOP remained the same as applicable in the preceding year.

Table 3.2.1 (b) Rate of Refinance under Conventional EFS (Part I & II)			
S #	Months	Rate (%)	
		FY05	FY06
1	July	2.0	7.5
2	August	2.5	7.5
3	September	2.5	7.5
4	October	3.0	7.5
5	November	3.0	7.5
6	December	3.5	7.5
7	January	3.5	7.5
8	February	4.0	7.5
9	March	4.5	7.5
10	April	5.0	7.5
11	May	6.5	7.5
12	June	6.5	7.5



3.2.2 Islamic Export Refinance Scheme

Islamic Export Refinance Scheme is playing an important role in meeting the credit requirements of those exporters who do not want to avail financing under conventional EFS. Field offices of BSC are providing refinance facilities under the IERS to the Islamic banks and dedicated branches of conventional banks providing the Islamic Banking Products and Services on Musharika basis. Lending under IERS was started in July 2004 and BSC Karachi was the first to disburse the loan under the said portfolio during the preceding year. At present 6 field offices of BSC are providing refinance facility under the scheme. During FY06, these field offices processed 230 transactions relating to grant of refinance under IERS as compared to 183 transactions in the preceding year. BSC field offices processed 203 transactions relating to repayment of loan during FY06 as compared to 196 transactions last year along with realization of remuneration (share of profit) on quarterly basis from banks (Table 3.2.2).

Table 3.2.2 Cases Processed under Islamic Export Finance Scheme (IERS)										
Offices	No. of Transactions Executed / Processed relating to flows under EFS						No. of Transactions Involving			
	Grant		Repayment		Remuneration		Fine		Refund	
	July 04-June 05	July 05-June 06	July 04-June 05	July 05-June 06	July 04-June 05	July 05-June 06	July 04-June 05	July 05-June 06	July 04-June 05	July 05-June 06
Faisalabad	61	67	40	60	132	189	2	7	-	2
Gujranwala	-	3	-	1	-	3	-	-	-	-
Karachi	67	107	99	98	185	105	2	20	-	-
Lahore	23	16	24	18	46	32	3	6	-	-
Multan	8	5	9	8	16	19	-	16	-	-
Sialkot	24	32	24	18	-	-	-	-	-	-
Total	183	230	196	203	379	348	7	49	-	2

3.2.3 Scheme for Long Term Financing of Export Oriented Projects (LTF-EOP)

The scheme for Long Term Financing of Export Oriented Projects (LTF-EOP)”, was introduced in May 2004. Under the scheme, eligible financial institutions are allowed to provide financing facility to the borrowers on attractive terms and conditions for import of machinery, plant, equipment and accessories thereof by export-oriented units. The rates of mark up are linked with the weighted average yield on 12 months Treasury Bills as well as PIBs of 3 years and of 5 years maturity. Field offices of BSC have provided refinancing facilities to Participating Financial Institutions (PFI) under LTF-EOP on service charge basis. The rates of service charges under the scheme, in respect of refinance availed by the banks and DFIs approved as Participating Financial Institutions (PFIs) are as under: -

Tenure	Rate of refinancing to banks/DFIs
For borrowers requiring financing upto 2 years.	4.00%p.a.
For borrowers requiring financing over two years but upto 3 years.	4.00%p.a.
For borrowers requiring financing for period over three years and upto maximum period prescribed under the scheme i.e. 7-1/2 years	5.00%p.a.

During the period under review total number of LTF-EOP transactions processed by five field offices regarding grant, repayment of loan were 602 as compared to only 17 transactions executed / processed during the preceding year (Table 3.2.3).

Table 3.2.3 Cases Processed under Scheme for Long Term Financing of Export Oriented Projects (LTF-EOP)

Offices	No. of Transactions Executed / Processed relating to flows under LTF-EOP					
	Grant		Repayment		Remuneration	
	July 04-June 05	July 05-June 06	July 04-June 05	July 05-June 06	July 04-June 05	July 05-June 06
Faisalabad	-	8	-	-	-	1
Karachi	8	358	-	15	9	80
Lahore	-	47	-	-	-	78
Multan	-	6	-	-	-	8
Peshawar	-	1	-	-	-	1
Total	8	420	9	23	-	159

3.2.4 Amount Outstanding under Export Finance Scheme

The amount of loan outstanding under the conventional EFS was Rs.108.7 billion as on 30th June 2006 as compared to Rs.111.9 billion at end June 2005. The amount outstanding under Islamic Export Refinance Scheme was Rs.3.1 billion at end June 2006 as compared to Rs.2.9 billion on 30th June 2005. Similarly under LTF-EOP an amount of Rs.6.7 billion was outstanding at the end of current financial year as against Rs.388.3 million on 30th June 2005. The amount availed under LTF-EOP showed a significant increase over the preceding year.

Table 3.2.4 Amount Outstanding under Export Finance Scheme						
Field Offices	(Rupees in million)					
	Conventional EFS (Part I & II, LMM)		Islamic Export Refinance Scheme(IERS)		Long Term Financing - Export Oriented Projects	
	30-06-2005	30-06-2006	30-06-2005	30-06-2006	30-06-2005	30-06-2006
Faisalabad	19,944.2	20,229.6	1,076.0	949.5	-	402.7
Gujranwala	2,784.2	3,119.7	-	4.0	-	-
Hyderabad	111.0	33.7	-	-	-	-
Islamabad	1,072.5	722.9	-	-	-	-
Karachi	57,441.6	53,948.3	1,266.3	1,693.1	388.3	5,107.1
Lahore	20,660.6	20,203.7	175.5	105.0	-	938.6
Multan	642.4	662.6	216.5	213.2	-	210.7
Muzaffarabad	3.3	3.3	-	-	-	-
Peshawar	258.4	499.3	-	-	-	12.4
Quetta	12.5	12.5	-	-	-	-
Rawalpindi	146.5	89.9	-	-	-	-
Sialkot	8,616.2	8,980.9	169.0	138.4	-	-
Sukkur	228.3	233.9	-	-	-	-
Total	111,921.7	108,740.3	2,903.3	3,103.2	388.3	6,671.5

3.2.5 On-site Verification of Export Finance Cases

In terms of modifications made in the Export Finance Scheme in September 2001, procedures under Part-I of the scheme were simplified and excessive paper work was reduced. Under the modified scheme, field offices of BSC were assigned the responsibility of on site verification of EFS cases in their respective jurisdiction to ensure that the funds availed by the commercial banks have been used for the purpose they were reimbursed to them and banks are observing the conditions as laid down in the scheme diligently while extending the loan.

In order to streamline the verification process of export refinance cases a unit namely “Central EFS Verification Unit” has been established at BSC Head Office Karachi in November 2005. The objective of this initiative is to maintain the uniformity in verification process in all the field offices, provide necessary guidance to the employees involved in the verification process, and to prepare a consolidated report on each commercial bank on the basis of findings of the verification teams for onward submission to the SME and Micro Finance Department SBP.

The Central EFS Verification Unit has initiated the verification process of EFS cases pertaining to the period 2004-2005 handled by the commercial bank branches. At first, the unit circulated the schedule of on-site verification of EFS cases for 2004-05. Guidelines for verification teams were also prepared and issued in the light of SBP instructions for on-site verification of refinance cases consisting of all types i.e.; small, medium, and large categories. In response thereto the field offices constituted the verification teams in their respective offices.

During the period under review, verification of 11,297 EFS cases handled by 156 branches of 19 commercial banks has been completed. The verification teams of BSC field offices have pointed out various irregularities in EFS cases. So far 19 consolidated verification reports in respect of banks mentioned in Table 3.2.5 have been prepared on the basis of findings of the verification teams and sent to SBP for necessary action in the matter. These verification teams have also proposed a fine of Rs.4,243,883 on different irregularities which has been recovered from the commercial banks.

Table 3.2.5 On-site Verification of EFS Cases (2004-05)				
S #	Name of Commercial Bank	Number of Bank Branches	Number of Cases Verified	Amount of Fine Recovered by the Verification Teams
1	ABN Amro Bank	02	87	20,830
2	Allied Bank Limited	08	256	211,709
3	Askari Commercial Bank	23	2,057	479,954
4	Al Baraka Islamic Bank	04	193	387,606
5	Bank Alfalah Limited	14	1,141	125,575
6	Bank AL Habib Limited	09	1,129	29,800
7	Crescent Commercial Bank Limited	02	18	209,058
8	Faysal Bank Limited	09	427	462,808
9	Habib Bank AG Zurich	08	764	272,595
10	Habib Bank Limited	19	1,568	637,425
11	Industrial Development Bank of Pakistan	01	11	61,400
12	MCB Bank Limited	16	614	171,615
13	Meezan Bank Limited	02	24	16,884
14	National Bank of Pakistan	06	126	286,448
15	NIB Bank Limited	03	660	2,379
16	Prime Commercial Bank Limited	12	734	20,435
17	Soneri Bank Limited	11	882	358,809
18	Standard Chartered Bank	02	03	400
19	Union Bank Limited	05	603	488,153
Total		156	11,297	4,243,883