

# 6 Export Finance Scheme

## 6.1 Overview

With the sole objective of promoting exports of the country, State Bank of Pakistan (SBP) has been consistently making policies and reviewing them from time to time to encourage the genuine exporters to enhance their exports by ensuring that their genuine credit requirements are met through the banking system. For this purpose, SBP has introduced credit schemes for both working capital and investment finance. These schemes include Export Finance Scheme (EFS) (Part I & Part II), Islamic Export Refinance Scheme (IERS), Long Term Financing for Export Oriented Projects (LTF-EOP) and recently introduced Long Term Financing Facility (LTFF). Over the years, these credit schemes have contributed substantially in increasing exports from Pakistan. The policy instructions of the above schemes are issued by SBP, whereas the SBP-BSC through its field offices ensures smooth implementation of the scheme.

Under the EFS and IERS, commercial banks (including Islamic banks and dedicated branches of conventional banks working on Shariah compliant basis) approach the field office of BSC for reimbursement of financing facilities disbursed by them to the exporters. As per policy, SBP-BSC field offices reimbursed 70 percent of the finance disbursed by banks to the exporter for a maximum period of 180 days for direct export (270 days for export of hand-knotted carpets and exports to South America) and 120 days for indirect export. Where requests are in compliance to the instructions of State Bank, the field offices of BSC release the amount under EFS and IERS within a maximum time of 48 hours of the receipt of refinance claim.

The LTF-EOP scheme (now defunct) helped the exporters in import of machinery for upgrading the existing technology for increasing their output. The scheme, during its operations allowed eligible financial institutions to provide financing facilities to the export-oriented units on fixed rate of mark up at attractive terms and conditions for import of plant, machinery, equipments and accessories.

The LTFF is a new long-term financing facility replacing LTF-EOP and aims to promote export led industrial growth in the country. The facility provides finance at competitive fixed rates to exporters for adoption of new technologies and modernizing their plant and machinery.

## 6.2 Modifications in Export Finance Scheme carried out during 2007-08

To enhance effectiveness of Export Finance Scheme and its performance oriented utilization by genuine progressive exporters as also to avoid structurally inherent adverse monetary policy implications in the existing mechanism, SBP revised the scheme on 31<sup>st</sup> July 2007 as per followings:

### *6.2.1 Modifications in refinancing limits and resource sharing arrangements*

- a) Effective August 1, 2007 the limits of banks under EFS for the year 2007-08 were fixed at the level of outstanding amount as on 30<sup>th</sup> June 2007. The limit was conveyed

separately to each bank. In case a bank had availed export refinance in excess of the outstanding balance as on 30<sup>th</sup> June 2007, it was required to bring down its refinance from SBP-BSC to the end June 2007 level, latest by 30<sup>th</sup> November 2007. The commercial banks were also required to ensure to reduce their total outstanding refinance availed by them from BSC offices as on 30<sup>th</sup> June 2007, by 30 percent by end June 2008. To make this reduction gradual, the outstanding refinance was to be reduced by at least 15 percent, latest by end January 2008.

- b) With a view to encourage banks to use their own funds for export financing at the rate under EFS, SBP decided to allow refinance to each bank to the extent of 70 percent of the amount provided by it to the individual exporter.
- c) The amount of refinance provided by banks to the exporters under the scheme from their own sources was deducted from the sum of demand liabilities for the purpose of computation of Cash Reserve Requirement of each bank.
- d) Commercial banks continued to avail 70 percent refinance from BSC offices as per sub-limits assigned by their head office for each field office of SBP-BSC.
- e) The exporters continue to remain entitled to obtain financing from commercial banks for 100 percent of the invoice value/ contract/ export letter of credit/ shipping documents under Part-I and/ or their entitlement to borrow under Part-II at EFS rates as declared by SBP.

#### ***6.2.2 Changes in matching performance requirement under Part-II of the Scheme***

- a) Exporters availing financing facilities under Part-II of the scheme were required to submit EF-1 statement duly verified by the respective offices of FEOD, SBP-BSC within two months from the completion of the financial year, as at present. While the requirement relating to submission of EE-1 and EF-1 statements under Part-II of the scheme remained unchanged, the exporters availing Part-II facilities were required to submit a statement showing details of shipments of eligible goods to the extent of 70 percent of the refinance already availed while applying for rollover of loans under Part-II after completion of the initial 180 days. The rollover facility was not allowed to banks under Part-II in respect of exporters who failed to provide evidence for shipments to the extent of 70 percent of refinance availed. The exporters of hand knotted carpets were however eligible for rollover of the refinance facility under Part II on showing 60 percent of shipment on Form EP. Further, the performance requirement of hand-knotted carpets was also revised from 2.0 times to 1.5 times for FY08.
- b) Commercial banks were advised to ensure that the requests of the exporters for financing exports, if otherwise in order, were not turned down or reduced on the grounds that the banks would not be eligible for availing refinance to the extent of 100 percent of the value of export bill under Part-I or entitlement of the exporters under Part-II.
- c) The banks were also required to ensure that their total financing for export purposes under the new arrangements did not fall below the ratio of their advances for exports to net advances as on end-December 2006. Banks were encouraged to improve this ratio further to ensure that the growth in financing for export purposes matched with the target set for growth of exports each year.

### ***6.2.3 Relaxation of the grace period to exporters under EFS***

During FY08, SBP received representations from chambers of commerce/ exporters that heavy load shedding had adversely affected their production and as a result some of the exporters could not ship export consignments in time or realize export proceeds within 2007-08. In order to address the problems faced by exporters following relief was provided in respect of refinance availed by them under both parts of EFS for the year 2007-08:

- A grace period of 15 days was allowed to the exporters who availed pre-shipment finance during 2007-08 and could not ship the goods within the prescribed period of 180 days. As such, no fine was charged for shipments made within 195 days from availing of the loan.
- An additional period of one month was allowed to the exporters having shortfall in required performance under Part-II for the monitoring year 2007-08. This enabled them to include entries showing realization of export proceeds during July 2008 in their EF-1 statement for the year 2007-08. However, such transactions shall not be eligible for inclusion in EF-1 statement for FY09. These relaxations did not affect the existing period of loan and all finances/ refinances continued to be adjusted at the expiry of 180 days under both parts of the scheme, as per normal procedure.
- The exporters having met the performance requirements of the Scheme were required to submit EF-1 statement for the purpose of verification to FEOD during July-August 2008 as usual.

### ***6.2.4 Relaxation to the exporters of Leather Garments under EFS***

In view of the circumstances particular to the leather garments industry in general and those impacting exporters of leather garments in particular, the following relief was provided in respect of refinance availed by them during 2006-07:

- In case of Part I, the exporters of leather garments were allowed to provide evidence of shipments of eligible goods to the extent of 75 percent of the refinance loans obtained during 2006-07 instead of 100 percent of the loan amount.
- Under Part II of the scheme, the required performance for financing facilities availed during FY07 was reduced to 1.5 times as against existing performance requirements of 2.0 times.
- In case the exporter failed to make shipment as prescribed under Part I, including delay in shipment and achieving performance under Part II as above, fine was computed as per the rate prescribed under the Scheme. However, fine so computed was to be recovered to the extent of 75 percent of the amount involved.

### ***6.2.5 Introduction of Long Term Financing Facility***

State Bank of Pakistan introduced a new Long Term Financing Facility (LTFF) effective from 1<sup>st</sup> January 2008 to promote export led industrial growth in the country. The facility provides finance to exporters for adoption of new technologies and modernizing their plant and machinery in line with the international competitive environment. The salient features of this facility are as under:

- **Scope:** Exporters (including SMEs) can avail financing under this facility through Participating Financing Institutions (PFIs) for new imported and locally manufactured plant and machinery. The facility is available to the export oriented projects only with at least 50 percent of their sales constituting exports or if their annual exports are equivalent to US\$5 million, whichever is lower.
- **Eligible Financial Institutions:** Under the new facility, financing is available through commercial banks including Islamic banks and DFIs approved as Participating Financial Institutions (PFIs). Islamic banks are also eligible for offering LTFF subject to availability of Shariah compliant compatible product under the facility duly approved by the bank's Shariah Advisor and cleared by SBP's Shariah Board.
- **Period of financing:** The loans availed under the facility are repayable within a maximum period of 10 years including a maximum grace period of 2 years from the date of availing of loan. However, where financing facilities are provided for a period of five years or less, maximum grace period shall not exceed one year.
- **Provision of Refinance:**
  - SBP has undertaken to allocate an overall yearly limit under the facility for sanction to individual PFIs on first come first served basis in line with the internal criteria developed by the SBP. For 2 quarters of FY08, this amount was fixed at Rs.8 billion. The allocation was to be assigned among the individual PFIs by the SBP. PFIs were instructed to submit their requests for allocation of sub-limits within 15 days from issuance of the circular. There was no maximum limit for borrowing by the prospective entrepreneurs under the facility subject to compliance of the relevant Prudential Regulations (PRs).
  - SBP has undertaken to provide refinance upto 70 percent of the facility sanctioned by banks during 2007-08 while the remaining amount of 30 percent or more of LTFF was to be financed by PFIs from their own resources to the borrower.
  - Refinance under the limit is provided to the PFIs on service charge basis to be announced on yearly basis effective from 1<sup>st</sup> July each year and applicable till end June during the following year. For FY08 the service charges and rates for end users were fixed as under:

Period of financing	Rate of Refinance	PFI Spread	End user's rate
Upto 3 years	6.50%	1.50%	8.00%
Over 3 years and upto 5 years	6.50%	2.50%	9.00%
Over 5 years and upto 10 years	7.00%	3.00%	10.00%

- Funds provided by the PFIs from their own resources are eligible for deduction from the time and demand liabilities determined for the purpose of computation of both Cash Reserve Requirements and Statutory Liquidity Requirements.

Lending under the facility is also subject to compliance with the Prudential Regulations as prescribed by the SBP from time to time for different categories of borrowers. PFIs have to consider financing based on the debt equity ratio as prescribed in applicable Prudential Regulations for each type of the borrower. The financing PFI may however ask for higher contribution of equity from the borrowers keeping in view their individual risk profile.

### **6.3 Role of BSC in credit disbursement under EFS and other credit schemes of SBP**

Presently 14 field offices are providing refinance facility to the commercial banks against financing provided by them to the exporters for the export of eligible commodities ensuring compliance of the policy instructions issued by the concerned department of SBP. The setting up of BSC as a fully owned subsidiary of SBP in 2001 has enhanced the efficiency in processing of the requests of commercial banks besides improving coordination with SBP in providing feedback for improvement in operations of the scheme. These offices also ensure recovery of loan amount and the mark up from commercial banks on the respective due date by debit to the account of the concerned commercial bank, where they fail to meet their obligations in this regard. Field offices of BSC are also entrusted with the responsibility of carrying out on-site verification of export refinance cases under Part-I of the scheme handled by the commercial bank branches.

#### ***6.3.1 Conventional Export Finance Scheme (Part I & II)***

In Pakistan, the working capital finance to the exporters mainly comes through the Export Finance Scheme of the SBP. The EFS which primarily target the export sector has contributed to substantial increase in foreign exchange earning of the country. The financing facilities under the scheme are available to small, medium and large size enterprises for eligible commodities which are not included in the 'Negative List' issued by the SBP. The EFS operates in two parts viz Part-I and Part-II. The banks are required to repay the refinance provided by BSC on realization of export proceeds in full or part thereof as the case may be, within three working days from such realization or from their own sources on expiry of the maturity period of the loan. Otherwise the concerned field office of BSC recovers the same on due date by debit to their account maintained with them. It is obligatory for the exporters to provide shipping documents against each case to his bank within the stipulated time, failing which fine is levied as prescribed under the scheme for non-shipment. This financing facility under EFS is provided for a period of 180 days for direct exporter (270 days for hand-knotted carpets and exports to South America) and up to 120 days for indirect exporter.

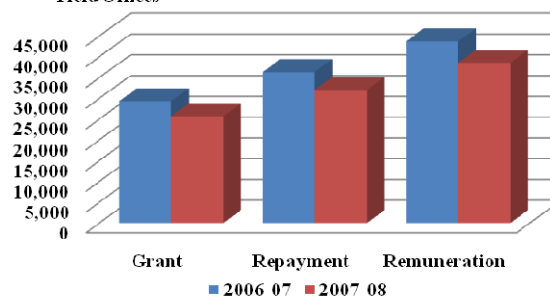
The total number of transactions relating to grant, repayment and remuneration (share of profit) processed by the field offices of BSC under EFS Part I and Part II of the scheme were 96,269 during 2007-08 as compared to 109,279 cases processed during 2006-07 [Table 6.3.1 (a & b)]. The decrease in number of transactions under EFS was recorded on all the three counts i.e. transactions relating to grant, repayment and remuneration under EFS.

**Table 6.3.1 (a) Cases processed under Export Finance Scheme (Part I & II)**

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 (Share of Profit)		Fine		Refund			
	2006-07	2007-08	2006-07	2007-08	2006-07	2007-08	2006-07	2007-08	2006-07	2007-08	2006-07	2007-08
Faisalabad	3,288	2,750	3,114	3,021	9,260	7,987	2,050	1,908	262	262	4	1
Gujranwala	530	433	584	570	1,485	1302	179	153	31	-	-	-
Hyderabad	25	11	28	15	67	34	29	13	9	2	-	-
Islamabad	138	103	170	153	141	123	89	70	17	31	1	-
Karachi	16,598	15,023	19,297	19,257	15,878	16,165	9,391	10,908	1,317	1,005	3	15
Lahore	5,233	4,326	9,633	5,770	13,049	9,497	6,611	6,384	730	829	2	-
Multan	45	33	42	43	110	112	33	43	-	2	-	-
Muzaffarabad	2	1	2	2	4	3	-	1	-	-	-	-
Peshawar	59	49	56	54	113	136	19	24	-	1	-	-
Quetta	9	4	8	7	21	15	2	2	-	-	-	-
Rawalpindi	73	76	75	69	149	156	67	68	39	23	-	-
Sialkot	2,703	2,319	2,715	2,510	2,689	2,169	530	305	29	22	1	3
Sukkur	580	563	580	560	720	848	66	192	9	15	-	-
<b>Total</b>	<b>29,283</b>	<b>25,691</b>	<b>36,304</b>	<b>32,031</b>	<b>43,686</b>	<b>38,547</b>	<b>19,066</b>	<b>20,071</b>	<b>2,443</b>	<b>2,192</b>	<b>11</b>	<b>19</b>

**Table 6.3.1 (b) Summary of cases processed under EFS (Part I & II) at field offices of BSC**

S #	Description of transaction	2006-07	2007-08
1	Grant	29,283	25,691
2	Repayment	36,306	32,031
3	Remuneration	43,690	38,547
<b>Total</b>		<b>109,279</b>	<b>96,269</b>

**Figure 6.3.1(b) Cases Processed under EFS Part I & II at Field Offices**

### 6.3.2 Islamic Export Refinance Scheme

SBP is endeavoring to promote Islamic banking in Pakistan as an alternate banking system for the people who wish to undertake their banking transactions on Shariah compliant basis. The Islamic banking in Pakistan has witnessed a remarkable growth and acceptance from the stakeholders. In order to provide level playing field to the Islamic banks and dedicated Islamic branches of conventional banks, SBP has designed 'Islamic Export Refinance Scheme' (IERS) to facilitate the exporters having preferences for the Islamic based working capital finance. The IERS operates in two parts viz Part-I and Part-II on the pattern of conventional EFS. Under the scheme, Islamic banks including the dedicated branches of commercial banks working on Shariah compliant basis and providing Islamic banking products and services, approach the field office of BSC for reimbursement of the loans provided by them to the exporters. Presently, the Islamic banks and Islamic branches of conventional banks have been availing refinance facilities under IERS from eight field offices of BSC located in Faisalabad, Gujranwala, Islamabad, Karachi, Lahore, Multan,

Rawalpindi and Sialkot. The total number of transactions regarding grant, repayment of loan and remuneration (share of profit) under IERS processed by these field offices stood at 2,506 during FY08 as against 1,935 during FY07 registering an increase of around 29 percent during the current financial year. [Table 6.3.2 (a) & (b)].

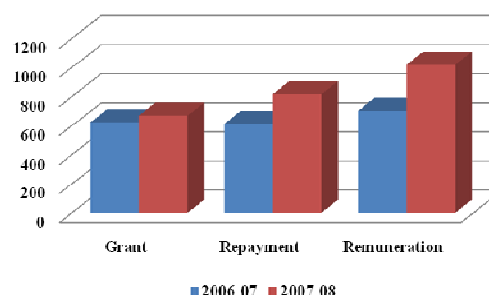
**Table 6.3.2 (a) Cases processed under Islamic Export Refinance Scheme (IERS)**

Office	No. of transactions executed/ processed relating to flows under IERS						No. of transactions involving			
	Grant		Repayment		Remuneration (Share of Profit)		Fine		Refund	
	2006-07	2007-08	2006-07	2007-08	2006-07	2007-08	2006-07	2007-08	2006-07	2007-08
Faisalabad	114	122	84	130	246	130	30	29	7	2
Gujranwala	7	6	8	3	8	13	-	-	-	-
Islamabad	11	4	4	8	4	8	-	-	-	-
Karachi	329	285	346	390	165	365	65	121	1	2
Lahore	116	193	137	233	271	443	-	29	-	-
Multan	-	-	2	-	2	-	4	-	-	-
Rawalpindi	3	4	-	5	6	14	-	-	-	-
Sialkot	42	56	30	47	-	47	1	-	-	-
<b>Total</b>	<b>622</b>	<b>670</b>	<b>611</b>	<b>816</b>	<b>702</b>	<b>1,020</b>	<b>100</b>	<b>179</b>	<b>8</b>	<b>4</b>

**Table 6.3.2 (b) Summary of cases processed under IERS at field offices of BSC**

S #	Description of transaction	2006-07	2007-08
1	Grant	622	670
2	Repayment	611	816
3	Remuneration	702	1,020
<b>Total</b>		<b>1,935</b>	<b>2,506</b>

**Figure 6.3.2(b) Cases processed under IERS at Field Offices**



### 6.3.3 Long Term Financing for Export Oriented Projects

The scheme of Long Term Financing for Export Oriented Project (LTF-EOP), now defunct, contributed substantially in providing fixed rate option to the industrialists for borrowings from commercial banks for import of machinery, for setting up of new projects and upgrading the existing technology. This scheme primarily targeted the export sector and thus has contributed towards increase in

foreign exchange earning of the country. The scheme allowed approved financial institutions to provide fixed rate financing facilities to the eligible borrowers on attractive terms and conditions for import of plant, machinery, equipments and accessories by export-oriented units. Under this scheme, facilities were available for establishing new units or upgrading existing facilities, including financing for acquisition of brand names and franchises at financing rate of 6 percent for loans upto three years and 7 percent for loans upto 7½ years.

**Figure 6.3.3 Rate of refinancing to banks/DFIs under LTF-EOP**

Tenure	Rate
For borrowers requiring financing over two years but up to 3 years.	6.00%p.a.
For borrowers requiring financing for period over three years and up to maximum period prescribed under the scheme i.e. 7½ years	7.00%p.a.

During FY08, eight field offices of BSC extended the refinancing facility under LTF-EOP as compared to seven offices in the previous year. The total number of transactions pertaining to grant and repayment of loan and remuneration (share of profit) processed under this scheme were 7,327 during FY08 as against 5,391 transactions during FY07 [Table 6.3.3 (a) & (b)] which reflected an increase of 35.9 percent over the preceding year.

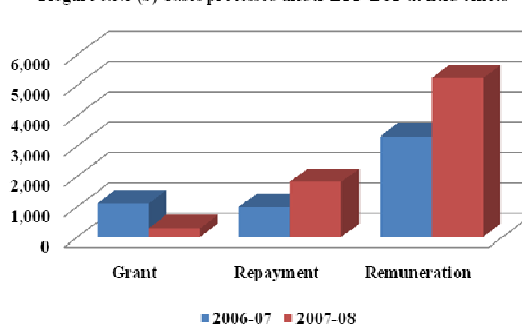
**Table 6.3.3 (a) Cases processed under the Long Term Financing for Export Oriented Projects (LTF-EOP)**

Office	No. of transactions executed / processed relating to flows under LTF-EOP						No. of transactions involving	
	Grant		Repayment		Remuneration		Fine	
	2006-07	2007-08	2006-07	2007-08	2006-07	2007-08	2006-07	2007-08
Faisalabad	147	39	174	467	427	502	-	2
Islamabad	1	-	1	2	3	4	-	-
Karachi	590	173	423	475	2,314	2,516	-	-
Lahore	250	31	283	652	293	1,232	1	-
Multan	103	43	74	197	212	898	1	6
Peshawar	3	-	-	1	12	17	-	-
Rawalpindi	11	-	27	22	43	44	-	-
Sialkot	-	4	-	-	-	8	-	-
<b>Total</b>	<b>1,105</b>	<b>290</b>	<b>982</b>	<b>1,816</b>	<b>3,304</b>	<b>5,221</b>	<b>2</b>	<b>8</b>

**Table 6.3.3 (b) Summary of cases processed under LTF-EOP at field offices of BSC**

S#	Description of transaction	2006-07	2007-08
1	Grant	1,105	290
2	Repayment	982	1,816
3	Remuneration	3,304	5,221
<b>Total</b>		<b>5,391</b>	<b>7,327</b>

**Figure 6.3.3 (b) Cases processed under LTF EOP at field offices**



### 6.3.4 Rates of refinancing

The rates for end users under EFS (including IERS), LTF-EOP and LTFF have been linked with the weighted average yields on six months treasury bills, and PIBs of appropriate tenure. However in case of EFS these rates have been fixed at 7.5 percent since 15<sup>th</sup> July 2006 at a rate below the appropriate benchmark. Likewise the mechanism for fixation of rates under long term schemes, which is made once a year, also allows the beneficiary a natural hedge against subsequent upward movements in the mark up rates. The aggregate financing facilities provided by banks under EFS continued to carry a maximum mark-up of 7.5 percent irrespective of the fact that SBP has revised mechanism for grant of refinance, provided the request for financing by exporters fulfill lending conditions of the financing bank and meet the conditions/ criteria prescribed under the scheme.

### 6.3.5 Amount Outstanding under Financing Schemes

The outstanding amount of different financing facilities introduced by the SBP from time to time has decreased substantially at the end June 2008. The outstanding amount of loan under EFS (Part I & II) was Rs.99,372 million as on 30<sup>th</sup> June 2008 as compared to Rs.133,629



million on the corresponding date last year. Under the IERS outstanding amount stood at Rs.5,234 million as on 30<sup>th</sup> June 2008 as against Rs.5,906 million on 30<sup>th</sup> June 2007. The outstanding amount under LTF-EOP has decreased to Rs.39,410 million as on 30<sup>th</sup> June 2008 as compared to Rs.44,038 million as on 30<sup>th</sup> June 2007. The aggregate amount of loans outstanding in all the three portfolios stood at Rs.144,016 million as on 30<sup>th</sup> June 2008 as against Rs.183,573 million as on 30<sup>th</sup> June 2007 showing a decrease of 21.5 percent over the preceding year. [Table 6.3.5 (a) & (b)].

<b>Table 6.3.5 (a) Amount Outstanding under various Financing Schemes</b>						
<b>Field Office</b>	<b>Conventional EFS</b>		<b>Islamic Export Refinance Scheme</b>		<b>Long Term Financing for Export Oriented Projects</b>	
	<b>30-06-2007</b>	<b>30-06-2008</b>	<b>30-06-2007</b>	<b>30-06-2008</b>	<b>30-06-2007</b>	<b>30-06-2008</b>
	<i>(Rupees in million)</i>					
Bahawalpur	7.7	-	-	-	-	-
Faisalabad	25,886.9	18,586.0	1,815.3	1,255.5	6,056.4	5,384.4
Gujranwala	4,270.4	3,400.9	1.4	7.2	-	-
Hyderabad	29.6	16.1	-	-	-	-
Islamabad	476.5	210.8	90.0	63.0	75.5	53.9
Karachi	66,496.4	50,603.4	3,101.4	3,055.0	20,169.2	19,263.5
Lahore	23,787.6	17,792.4	641.4	659.0	13,504.4	10,471.0
Multan	1,102.9	415.3	-	-	4,024.5	4,087.4
Muzaffarabad	2.9	1.8	-	-	-	-
Peshawar	661.7	487.4	-	-	88.1	63.7
Quetta	19.0	4.9	-	-	-	-
Rawalpindi	101.9	532.6	100.0	70.0	119.5	72.3
Sialkot	10,544.4	7,139.4	156.9	124.5	-	13.8
Sukkur	241.2	181.0	-	-	-	-
<b>Total</b>	<b>133,629.1</b>	<b>99,372.0</b>	<b>5,906.4</b>	<b>5,234.2</b>	<b>44,037.6</b>	<b>39,410.0</b>

<b>Table 6.3.5 (b) Summary of outstanding amount under various Financing Schemes</b>			
<i>(Rupees in million)</i>			
<b>S #</b>	<b>Scheme</b>	<b>30-06-2007</b>	<b>30-06-2008</b>
1	Conventional EFS (Part I, II & LMM)	133,629.1	99,372.0
2	Islamic Export Refinance Scheme (IERS)	5,906.4	5,234.2
3	Scheme for Long Term Financing for Export Oriented Projects (LTF-EOP)	44,037.6	39,410.0
<b>Total</b>		<b>183,573.1</b>	<b>144,016.2</b>

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

The field offices of BSC have also been entrusted with the responsibility of on-site verification of EFS cases under Part-I of the scheme by conducting verification of cases and the relevant record at the concerned branches of commercial banks. During this process, verification teams of field offices verify the compliance of the instructions issued by SBP under EFS covering grant of export refinance loans by the branches of the banks in their jurisdiction. In this exercise, attempts are made to verify cases of EFS covering at least 70 percent of the total amount disbursed by each bank. The main purpose of initiating the verification process is to put a mechanism to ensure that the reimbursement requests received by BSC field offices from commercial banks under EFS (Part-I) are strictly in accordance with the terms and conditions laid down in the scheme. The Central EFS Verification Unit established at BSC Head Office Karachi prepares and intimates the

schedule of on-site verification on six-monthly basis to field offices in February and August each year. On receipt of the schedule the Chief Managers of concerned field offices constitute verification teams comprising officers having sufficient knowledge and experience of export finance for conducting on-site verification of EFS cases at the branches of commercial banks. The reports of verification teams duly cleared by the Chief Managers are submitted to Central EFS Verification Unit at HOK for scrutiny of each report and their bank-wise consolidation. While consolidating reports, the Central EFS Verification Unit segregates the findings of verification teams into the categories of significant irregularities and general irregularities. The report once consolidated on bank-wise basis is sent to the concerned department of SBP for further action at their end. Since its inception in November 2005 the unit has vigorously pursued the verification process and on-site verification of export refinance cases pertaining to 2004-05, 2005-06 and 2006-07 have been completed by the field offices of BSC. The consolidated reports on all the concerned commercial banks in respect of the monitoring period 2004-05 and 2005-06 have been prepared and submitted to the concerned department of SBP up to 30<sup>th</sup> June 2008. The scrutiny and consolidation of EFS cases pertaining to 2006-07 is under process.

<b>Table 6.3.6 (a) Number of reports prepared on Verification of EFS cases</b>	
<b>Monitoring Period</b>	<b>Number of reports prepared</b>
2004-05	32
2005-06	26
2006-07	3
<b>Total</b>	<b>61</b>

During FY08, the verification teams of BSC field offices visited 255 branches of 26 commercial banks as compared to 252 branches of 26 commercial banks in the preceding year. The verification teams examined 14,637 export refinance cases during FY08 as compared to 14,416 cases examined during FY07 and suggested fine as per rules on account of irregularities detected during the verification process. An aggregate amount of Rs.25.2 million has been recovered during FY08 as compared to Rs.15.2 million during FY07 by the field offices from commercial banks on the basis of findings made by verification teams. A total of 18 on-site verification reports on different commercial banks have been prepared during FY08 and sent to SBP for their consideration.

<b>Table 6.3.6 (b) On-site Verification of EFS cases</b>					
<b>S #</b>	<b>Office</b>	<b>Number of Bank Branches Visited</b>		<b>Number of Cases Verified</b>	
		<b>2006-07</b>	<b>2007-08</b>	<b>2006-07</b>	<b>2007-08</b>
1	Faisalabad	27	28	809	919
2	Gujranwala	12	13	85	119
3	Hyderabad	3	3	32	25
4	Islamabad	6	6	121	86
5	Karachi	114	115	10,144	10,072
6	Lahore	75	75	3,025	3,087
7	Multan	-	1	-	8
8	Peshawar	1	1	2	2
9	Rawalpindi	3	3	24	21
10	Sialkot	4	5	26	27
11	Sukkur	7	5	148	271
<b>Total</b>		<b>252</b>	<b>255</b>	<b>14,416</b>	<b>14,637</b>