

(Enclosure to F.E Circular No. 07 /2003)

FOREIGN CURRENCY EXPORT FINANCE FACILITY (FCEF)
MODIFICATIONS TO ENHANCE THE UTILIZATION**1. The Facility**

1.1 **Credit lines to banks for export refinance.** The Foreign Currency Export Finance Facility (the Facility), a self-liquidating facility, will be made available by ADB to the State Bank of Pakistan (SBP) through a US dollar loan to finance production of eligible exports. SBP on-lends the loan funds to eligible participating banks (PCBs) in the form of credit lines. PCBs re-lend funds to eligible exporters in the form of sub-loans.

1.2 **Terms of the sub-loan.** The maximum size of a sub-loan is US\$ 500,000. The maximum tenor of a sub-loan is 180 days. Exporters may avail of more than one sub-loan if this is supported by export orders.

1.3 **Pricing of the credit lines to PCBs.** PCBs will avail of the facility from SBP at a mark up rate of the 6 month LIBOR plus 75 basis points, covering the cost of funds to the Government and SBP. This rate shall be adjusted biannually i.e. at 15th March and 15th September each year. SBP will periodically notify the changes in mark-up rates through its circulars. At present, the mark up charged to PCBs is 1.93% per annum.

1.4 **Pricing of sub-loans to exporters - Use of credit enhancements as collateral substitute.** The PCBs will be free to determine lending rates to be charged to eligible exporters keeping in view the cost of funds, credit risk, and administration. PCB's are encouraged to utilize credit enhancements such as guarantee cover provided by the Pakistan Export Finance Guarantee Agency (PEFGA) to exporters and PCBs for pre- shipment and post- shipment as collateral substitute and hence may adjust pricing of the sub-loans.

1.5 **Reporting on an ex-post basis.** PCB will report utilization monthly on an ex-post basis to SBP, Banking Policy Department, based on documentation provided by exporters to satisfy the eligibility criteria as specified in point 3.7 below.

2. Eligibility**A. Eligible Exporters**

2.1. The Facility will be available to Exporters meeting the following criteria:

- a) Exporters which report annual earnings up to the equivalent of US\$ 2,500,000 from direct or indirect exports during the enterprise's preceding fiscal year.
- b) The exporter has no outstanding non-performing loans to financial institutions.
- c) The exporter has not received funding for the goods or services to be acquired with the proceeds of the Facility, from the EFS, or any other Government or SBP scheme or any other financing scheme of bank(s).
- d) The exporter is in compliance with the current environmental and labor laws and regulations in Pakistan
- e) The exporter can document the export transaction as specified in point 3.3 below

B. Eligible Exports and Inputs

2.2 **Direct Exports.** Exports documented through export orders, export letters of credit, export certificates or a guarantee instrument issued by the Pakistan Export Finance Guarantee Agency (PEFGA), may be financed under the facility for pre-shipment and post-shipment purposes:

- a) Pre-shipment financing will normally be available up to a maximum of 80% of the value of the export. In case the export order is guaranteed by PEFGA, financing may be up to 100% of the guarantee value, whichever is higher.
- b) Post-shipment financing will normally be available to the extent of shipments made up to 80% of the value of the export order. In case the export order is insured through credit insurance or payment is by irrevocable letter of credit, financing may be up to 100% of the value of the insured export order or the relevant letter of credit.

2.3 **Indirect Exports.** Domestic sale of goods to an established direct exporter registered with the Export Promotion Bureau for the past 3 years, or a domestic sale guaranteed by PEFGA, may be financed up to 80% of the value of the supply contract or 100% of the value of the PEFGA guarantee, whichever is higher.

2.4 **Admissible inputs.** The facility may be used for financing of imported and locally procured goods and services. Any imports to be financed under the facility shall be made from ADB member countries.

2.5 **Ineligible products.** The following items are not eligible for financing under the Facility

- (a) Arms, ammunition and other military material,
- (b) Radioactive and associated material,
- (c) Nuclear reactors or parts thereof, fuel (cartridges), non-irradiated nuclear reactors.
- (d) Luxury goods and consumer goods (i.e. electrical appliances, engineering and electronic goods) that are primarily for domestic consumption and not re-exported are not admissible for import financing

C. Eligible PCBs

2.6 All scheduled banks which have met, and continue to meet, the SBP's prudential banking regulations, minimum paid-up capital requirement, the income recognition and provisioning standards, and minimum capital adequacy ratios, are eligible PCBs.

2.7 A list of eligible PCBs and credit line allocation will be posted on the SBP website and updated from time to time, under the hyperlink i.e. "Incentive for Exporter" to our main web page.

3. Application, Liquidation and Reporting

A. Applications and processing

3.1 **Request by PCBs for FCEF allocation.** Interested PCBs shall submit a request to (Apex Unit) Banking Policy Department, SBP. A request for allocations by PCBs may be made by PCBs any time and shall be received by SBP at least 15 days prior to the end of each quarter, and specify the PCB's commitments to eligible exporters in the preceding quarter, an estimate of the expected demand by eligible exporters for the forthcoming quarter and request an amount under the Facility. Apex Unit will examine the requests and thereafter allocate funds under the Facility in favor of the eligible PCB for on-lending to eligible SME exporters in line with availability and demand. *{An Application form is attached as Form 'A'}*

3.2 **Adjustment of FCEF allocations.** The SBP shall revise and if required re-allocate credit-lines to PCBs on a quarterly basis, *[upon execution of the financing agreement as prescribed on Form B and D. P. Note on "Form - C" in favor of State Bank of Pakistan BSC (Bank), Karachi]*. Any re-allocation will take into account actual utilization by the PCBs, financing requests by the PCBs, and cost of sub-loans given, with preference given in allocation to PCBs extending sub-loans at a lower cost. SBP will announce any re-allocations 5 days prior to the end of each quarter, and PCBs that find their allocation reduced are required to repay any unutilized amounts to SBP above the new limits by the end of the quarter.

3.3 **Documentation requirements for processing of sub-loans.** The PCB will collect and maintain separate files with the following information on exporters who obtain sub-loans under the Facility:

(I) For Direct Exporters:

- (a) Declaration of the exporter that exporter has not received financing for the requested transaction under the Export Finance Scheme and will not request such financing if export is being financed under the Facility or any other such as mentioned in para 2.1 (c).
- (b) Customary legal documentation and records, including relevant Export Order / Letter of Credit, or export certificates, or guarantee instruments issued by PEFGA, or shipping documents that are adequate to record the use of the Facility and the realization of the export proceeds under the Facility.
- (c) Declaration of the exporter that the exporter's enterprise is in compliance with the current environmental and labor laws in Pakistan.

- (d) Declaration of the exporter that exporter has no non-performing loans outstanding to any financial institution.
- (e) Declaration of the exporter that exporter will use the Facility to finance imported raw materials or goods or services from ADB member countries.
- (f) Declaration that exports volume in the preceding year has not exceeded US\$ 2,500,000.
- (g) Declaration of the exporter that exporter will negotiate and handle the export documents including repayment of the sub-loan out of the export proceeds through the same PCB from which it has availed the sub-loan under the Facility.

(II) For Indirect Exporters:

- (a) Declaration of the indirect exporter that indirect exporter has not received financing for the requested transaction under the Export Finance Scheme and will not request such financing if the purchase order is being financed under the Facility.
- (b) Customary legal documentation and records, including firm purchase order from a direct exporter registered with the EPB for the past 3 years, or guarantee instruments issued by PEFGA.
- (c) Declaration of the exporter that the exporter's enterprise is in compliance with the current environmental and labor laws in Pakistan.
- (d) Declaration of the exporter that exporter has no non-performing loans outstanding to financial institutions.
- (e) Declaration that sales volume to direct exporters in the preceding year has not exceeded US\$2,500,000.

B. Liquidation, remittances and payments

3.4 **Liquidation of inward remittances.** Sub-loans will be repaid by exporters through settlement of negotiation of the export letter of credit, or payment under export order to be repatriated to Pakistan and encashed with the PCB. [*Such inward remittances will be reported on form "R" Schedule "J" with code number 9711.*]

3.5 **Exports to Asian Clearing Union (ACU) member countries.** In case of export to ACU member countries, where export proceeds are not realized in convertible currencies, Authorized Dealers have the general permission as per Foreign Exchange Regulations to make remittances of the amount of principal / markup less taxes at the current exchange rate.

3.6 **Payment of mark-up and repayment of FCEF allocations by PCBs.** When the facility is repaid, the entry for repayment of the facility & markup thereon would be reported as an outward remittance under code No."1951- Principal" and "1211 – markup" respectively on schedule E-4.

C. Reporting

3.7 The PCBs shall submit to the (Apex Unit) Banking Policy Department SBP monthly status updates about the individual export contracts refinanced through the credit lines specifying amount, tenor, mark up rate, type of import, and client. [*The reporting format is attached as Form 'D'*].

3.8 PCBs will report utilization of foreign exchange proceeds of the export as “purchase” on Schedule A-1 for remitting the amount in the Special Account.

3.9 For the purpose of Balance of Payment statistics, the payment for the import would be reported on Form 'I' as a cash transaction and facility disbursed by the SBP would be reported as finances for import of goods utilized in the manufacturing of goods exported under its relevant code of commodities list - visible receipts/payments and sale / purchase from SBP on schedule D.

D. Audits and Misdeclarations

3.10 The PCB shall allow access to the SBP staff or designated representatives to inspect relevant records and documents at prior notice.

3.11 PCBs or exporters found to be misstating information or submitting false eligibility declarations will be excluded from further utilization of the facility. PCBs will be informed of ineligible exporters from time to time as the case may arise.

4. Others

4.1. **FCEF Accounts.** The Banking Policy Department will grant limit under FCEF to PCB, whereas SBP BSC (Bank) Karachi will maintain FCEF Account of the concerned PCB routed by their Head / Principal / Country Offices at Karachi by crediting their Nostro Accounts at the beginning of each quarter.

4.2. **Foreign exchange conversion and cover.** An eligible exporter, drawing on the Facility may convert the dollar facility, on the spot market, into Pak rupees in the inter-bank market. The PCB or PEFGA, as the case may be, shall ensure that the foreign exchange exposure is adequately covered by the exporter to limit risk exposure. In particular for indirect exporters who do not expect US\$ receipts, PCB may arrange for forward cover as appropriate.

4.3. **Compliance with other schemes.** Opening of letters of credit for imports would be subject to all other existing regulations, including the Import Trade Control Regulations.