

## Islamic Export Refinance Scheme

The State Bank 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 already put in place necessary mechanism under its Export Finance Scheme (EFS), which has been in operation since 1978. The recent developments relating to the introduction of specialized Islamic banking institutions have made it imperative for us to formulate a Scheme to enable the exporter to avail SBP's refinance through the newly established Islamic Commercial Banks against eligible commodities. Accordingly, we have designed a new Scheme styled as Islamic Export Refinance Scheme (the Scheme). The said Scheme shall also be utilized by the dedicated branches of the commercial banks that would work as standalone branches for providing the Islamic Banking Products and Services, for availing refinance against financing facilities provided by them to exporters for eligible commodities. The main features of the Scheme are as under:

### **1. General Guidelines:**

- 1.1. The State Bank shall provide the refinance facilities under the Scheme to Islamic Bank(s) / Stand alone dedicated branches of commercial banks under Section 17 6-B of the SBP Act 1956 (the "SBP Act") on Musharaka basis.
- 1.2. The facilities initially shall be allowed against a single or multiple underlying transaction(s), designed on the basis of Islamic Modes of financing approved by the Shariah Board of the concerned Bank.
- 1.3. **IERS Limit for Islamic Banks:** The quantum of limit to the Islamic Bank shall be fixed equivalent to a maximum of 1.5 times of their Equity / assigned capital in the first year of their operations. Subsequently, the limits shall be fixed keeping in view their performance as a bank, appetite for credit and non performing loans. The Islamic Bank shall approach the Small & Medium Enterprise Department for grant of aforesaid limit. After a limit has been granted the Islamic Bank shall then request the Office of SBP BSC (Bank) where it has its Head Office for allocation of different amount of limit to different Offices of SBP BSC (Bank) for utilizing the same by their respective branches.

- 1.4. **Dedicated Islamic Banking Branches of Conventional Banks:** In case of dedicated Islamic Banking branches of the commercial banks, the total limit for export finance for the bank shall continue to be fixed as per the instructions under the existing Export Finance Scheme. These banks will apply to State Bank for sub-allocation of limit, subject to a maximum of 20% of their limit under EFS, for utilization by their Islamic Banking branches under this scheme. The SBP may consider request for enhancement of the ceiling of 20% on case-to-case basis depending upon the merit of each request and keeping in view size and operations of the Islamic branch(es) of the bank vis-à-vis the bank itself.
- 1.5. **Cost of Funds to exporters:** The Islamic Commercial banks shall have to ensure that the effective cost of funds to the exporters does not exceed the rate declared by the State Bank under its Export Finance Scheme, besides ensuring that there is no negative spread on their portfolio under the Scheme.
- 1.6. **Musharaka Pool:** Each Islamic Bank shall be under obligation to create a Musharaka pool consisting of financing to blue chip companies on Islamic modes.
- 1.7. The Blue Chip companies shall mean such companies involved in the export business or other business or both, or a manufacturing concern marketing their products in Pakistan or abroad who
- 1.7.1. Have good track record on the stock exchange; or
- 1.7.2. Have a rating of minimum B + or equivalent by the rating agencies approved by the State Bank for rating banks in Pakistan, such rating should be acceptable to the bank as per its own lending policies, for advancing loans; or
- 1.7.3. Return on Equity during last three years which should be at least higher than the rates of finance prescribed by the State Bank during those years on its conventional EFS. In case of a company, which is in operation for less than three years, the ROE of the available number of years shall be considered as sufficient; and
- 1.7.4. Does not have adverse CIB report as also no export over dues that are not realized during a period of more than one year.
- 1.8. The Musharaka Pool (the pool) shall have **a minimum of 10 companies**, with diversified lines of business to avoid concentration in one or two sectors. The Islamic Bank shall be

under obligation to achieve the minimum number of the companies within first year of availing facilities under the Scheme. Details in respect of the pool shall be furnished to the Refinance Division of the Small & Medium Enterprises Department on quarterly basis as per Appendix 1 attached with the Form -1.

- 1.9. The Islamic banks would ensure that their **exposure to one sector** in the pool of companies does not exceed 50% of the total exposure of Musharaka Pool, especially in cases where the total number of the companies in the pool are more than 2.
- 1.10. The Islamic bank's investment in Musharaka pool consisting of the financing to blue chip companies shall be at least equal to the amount of export refinance availed from SBP. This financing, to be extended at normal financing terms, under other Islamic Modes may be for the purpose of Export Finance (for items not eligible under the Scheme) or for any other purpose to any company included in the Musharaka pool. However, the Islamic bank shall be under obligation to ensure that such financing is extended on the basis of normal prudence.
- 1.11. As there will be two streams of earnings of the pool, i.e. one at the terms of Islamic Export Refinance Scheme and the other at normal terms, it is expected that the total earnings of the pool shall be in excess of the rate of refinance announced by the State Bank under its Export Finance Scheme from time to time.
- 1.12. The Islamic Bank shall be under obligation for a **special audit** of the affairs of the Musharaka pool by its external auditors, certifying that the terms and condition of the Scheme have been adhered to in totality and that the annualized earnings of the pool have been worked out correctly.
- 1.13. The State Bank will share in the overall profits (gross income less any provision there-against created under Prudential Regulations during the period plus amount recovered against prior period losses and reversal of provision there-against) earned by Islamic Bank on the Musharaka pool under the provisions of the Scheme calculated on daily product basis.
- 1.14. The Islamic Bank will make **provisional payment** of the State Bank's share in the profit of the pool as per the last month's declared rate on outstanding balance of Musharaka pool.

The profit weightage will be fixed at the beginning of each month, keeping in view the ongoing rates announced by the SBP under Export Finance Scheme. At the end of each quarter the profitability from the Musharaka pool shall be determined on the basis of the un-audited accounts of the pool. The profit so worked out shall then be distributed between State Bank and the Islamic Bank according to the weightage of the funds contributed by both for financing the pool. The profit so calculated on quarterly basis shall be paid by the Islamic Bank upto the 7th of the month following the quarter to which it relates.

- 1.15. **Takaful Fund:** If on the basis of the annual audited accounts of the Islamic Bank, the profit accruing to the SBP is more than the profit paid to the SBP on quarterly basis as per the unaudited accounts of the earnings of the pool, the difference shall be deposited by the Islamic Bank, within 7 days of its determination, in a special non remunerative reserve fund viz. "Takaful Fund" to be maintained at the SBP BSC (Bank) Karachi Office. This arrangement shall remain effective for all intents and purposes during the currency of the agreement.
- 1.16. If on the basis of the annual audited accounts of the pool, the share of the State bank in the profit works out to be less than the amount, which has already been paid to the State Bank on provisional basis, the State Bank will refund the excess amount involved out of balance held in the Takaful Fund, if any.
- 1.17. In the event of loss suffered on the Musharaka pool on the basis of annual audited accounts, the Islamic Bank and the State Bank shall share the loss in the proportion of their share of investment in the Musharaka Pool expressed on daily product basis. The share of loss to State Bank will first be met out of credit balance in the Takaful Fund, if any. The loss not met from the Takaful Fund shall be borne by the State Bank.
- 1.18. In case of loss, the Islamic bank shall be entitled to claim refund on account of share of profit paid by it to SBP on provisional basis, alongwith SBP's share in the loss of principal amount extended to the Musharaka pool.
- 1.19. The Islamic Bank shall not require the clients to make provisional payment of profit to it at a frequency of less than three months.
- 1.20. While making final adjustment on account of return on the finance limit for an accounting year, the Islamic bank shall furnish a certificate from their external auditors certifying the

share of profit / return payable to the State Bank in terms of the conditions governing the Scheme.

1.21. In case of default on the part of Islamic Bank in repayment of facility within the stipulated period, SBP can impose fines on it, which will not be counted as expenses of Musharaka. The Islamic Bank can recover these expenses from the exporters if imposition of such fines is on account of their failure to comply with the instructions of SBP/Islamic Bank.

## **2. Fines:**

2.1. Fines shall be imposed on the exporters if they fail to meet the performance requirements of the Scheme. However, fines imposed by the Islamic Bank on exporters relating to the delays in repayment of financing will be given by the bank concerned to charity. The exporters shall continue to remain liable for payment of fines on account of their non-performance/ compliance to the requirements of the Scheme. Such fines as and when recovered, from the exporters shall invariably be passed on to the State Bank by the bank concerned. The failure of the Islamic Banks on this count shall be construed as their non-compliance under the Scheme, and would attract punitive measures as prescribed by the State Bank.

2.1.1. If an IDE who had obtained the finance under Part-I of the Scheme fails to supply the goods as per schedule of delivery to the DE or a DE fails to ship the goods involved, he shall be subjected to fine on account of non shipment at the rate of Paisa 37 per day per Rs. 1000/= or part thereof.

2.1.2. In case the IDE or the DE supplies/ ships the goods subsequent to the expiry of term, he shall be liable to pay fine only for the period of delay in supply / shipment at the rate of Paisa 37 per day per Rs. 1000/- or part thereof.

2.1.3. If a bank fails to deposit with the State Bank, towards repayment of the respective refinance amount, the amount of a repayment made to it by / on account of the exporters / supplier within 3 working days of receipt of the amount by it, it shall be subjected to a fine at the rate of paisas 60 per day per Rs. 1000/- or part thereof on the amount involved till the amount is deposited with the State Bank.

- 2.1.4. Fines for any other defaults by the DE / IDE or bank shall be recovered at the rate of paisas 37 per Rs. 1000 or part thereof.
- 2.1.5. Fines for late submission of shipping documents by the DE / IDE to its bankers shall be recovered by the bank at the rate of Rs 2000 for the default and Rs. 100 per day for each day of default from them and passed on to the concerned office of SBP within 3 working days.
- 2.1.6. If an exporter fails to meet the performance requirement under Part II of the scheme, it shall be subject to fine at the rate of Paisa 37 per 1000 of the product of the shortfall as required under the scheme.
- 2.1.7. If an exporter fails to submit EF-1 statement by the 31st of August each year, he shall be subject to fine for the full amount of the facilities availed under the Scheme. Fines for late submission of EF-1 by the exporter to its banker(s) shall be recovered by the Bank at the rate of Rs 2000/- for the default and Rs.100 per day for each day of default from them and passed on to the concerned office of SBP within 3 working days.
- 2.1.8. Fine for wrong information and incorrect reporting / entry in any Statement required to be furnished to State Bank of Pakistan will be charged from the bank at the rate of Rs. 100/- per such wrong entry. Such fine shall be passed on to exporter only in case such wrong entry was based on the information received from exporter.

### **Operations of the Scheme**

#### **3. Part I:**

- 3.1. Islamic Bank shall provide finance under Islamic modes duly approved by its Shariah Board for maximum period of 180 days for a Direct Export (DE) and 120 days for an IDE (IDE) against eligible commodities only. The facilities shall be available for both DE and IDE to the extent of 100% of the value of a Firm Export Order/ Export Letter of Credit (FEO/ELC) or the Standardized Purchase Order (SPO) as the case may be. The term IDEs shall have the same meaning as defined in the conventional Export Finance Scheme of the State Bank.
- 3.2. The IDE would be entitled to avail facilities for the eligible commodities only, to be used as inputs by the DE for execution of FEO/ ELC. The DE, who has a firm export order/ contract/

letter of credit, may request his bank to open an Inland Letter of Credit (ILC)/ or the DE may issue Standardized Purchase Order (SPO) in favor of the IDE i.e. domestic supplier.

- 3.3. IDE will be eligible to avail finance from banks against such ILC or SPO, to the extent of the amount mentioned in ILC or SPO for the period involved.
- 3.4. The period of financing by Islamic Bank under the Scheme to an IDE shall be determined as per the terms of the relevant ILC/ SPO, upto the period mentioned therein but subject to a maximum of 120 days. Islamic Bank shall, however, ensure that the total amount withdrawn by the DE and value of ILC/ SPO established on his behalf does not exceed the value of the export finance admissible to the DE against the FEO / ELC during the currency of the establishment of the SPO/ILC.
- 3.5. The DE or IDE, as the case may be, will approach Islamic Bank for availing financing facilities under the Scheme, indicating his financial needs as prescribed in Form '3' or '4' respectively.
- 3.6. The Islamic Bank after providing finance to the DE / IDEs can avail Musharaka finance from SBP for which it will make an application to SBP on Form -2 indicating particulars of DE/ IDEs to whom the bank has granted finance and against which it intends to avail refinance.
- 3.7. The total amount of financing extended by Islamic Bank against any one FEO/ELS to both DE and IDE (subject to ILC or SPO) will not exceed the total amount of the FEO/ELC. The combined period of financing against a specific FEO/ELC to the DE as also to his suppliers i.e. IDE shall not exceed the permissible period of 180 days from the date of first withdrawal / disbursement.
- 3.8. The facility shall be extended by the Islamic Bank under the Scheme to DE / IDEs for pre-shipment basis on production of the following documents by the exporters concerned: -

<b>Direct Exporter</b>	<b>Indirect Exporter</b>
1. Firm Export Order/ Export Letter of Credit	1. Inland letter of credit/ Standardized Purchase Order
2. Application / Undertaking on the attached format (Form 3)	2. Application on the attached format( Form 4)
3. Shariah compliant financing agreement, on the format prescribed by bank along with DP note as per the format attached as Appendix-3	3. Shariah compliant financing agreement on the format prescribed by the bank alongwith DP Note on the format attached as Appendix-3

#### **4. Refinance from SBP:**

4.1. The Islamic Bank after providing finance to their clients shall submit an application on the prescribed form (as per Form 2) giving full particulars of the facilities provided by them to the exporters. The concerned office of the SBP BSC will make available to the Islamic Bank, an amount equivalent to the facilities extended by the Islamic Bank to its clients under the Scheme as SBP's share in the Musharaka pool. The concerned office of the State Bank BSC shall be under obligation to release the facilities within 48 hours of receipt of the application complete in all respect and a demand promissory note executed by the exporter concerned on Appendix 3.

#### **5. Submission of Documents under Part I:**

5.1. The DE shall be liable to submit the proof of shipments to Islamic Bank against the financing, evidencing shipment of an eligible commodity within 30 days from the date of shipment {last shipment in the case of fragmented shipment(s)} or from the date of expiry of facility, whichever is earlier. The DE shall also be liable to submit Export Proceeds Realization Certificate (EPRC) evidencing realization of the proceeds from abroad as per instructions of the Exchange Policy Department of the State Bank of Pakistan.

5.2. The facility granted to the IDE, along with profit thereon, shall be adjusted upon delivery of the inputs and payment of documents drawn under the ILC / SPO or at the expiry of the period of 120 days, whichever is earlier. The IDE shall be under obligation to produce documents, evidencing utilization of the facility to the bank of the DE, besides his own bank within 15 working days of the supply of goods to the DE.

5.3. The shipping documents required to be submitted by the DE /IDEs to the Islamic Bank would be as under: -

<b>Direct Exporter</b>	<b>Indirect Exporter</b>
1. Original duplicate copy of Form 'E'	1. Invoice
2. Bill of Lading / Airway Bill	2. Truck/ Railway receipt
3. Invoice	3. Goods Received Note GRN/ Delivery challan signed by the buyer.
4. EPRC within a period of 180 days from the date of shipment or such extended time as prescribed by Exchange Policy Department of the State Bank of Pakistan.	



- 5.4. In case, the shipping documents are not received by bank on or before 30 days from the date of the expiry of facility, the Islamic Bank shall be required to impose and recover fine from the concerned exporter treating the case as that of non-shipment and pass on the fine so recovered to SBP within three working days from such recovery.
- 5.5. The exporter concerned shall be entitled to refund of fine so recovered, on submission of the relevant shipping documents, after adjusting the fine that may be applicable for delayed /short shipment and delayed submission of shipping document.
- 5.6. Islamic Bank shall prepare a resume' of such exporters qualifying for refund as and when documents are submitted by exporters, and would approach the concerned office of SBP BSC (Bank) for claiming refund of fine (as per Appendix- 4) earlier passed on to it. The concerned office of the SBP BSC (Bank) will, after scrutiny of the information submitted as per instructions, refund the same to Islamic Bank, if found justified. The Islamic Bank would be liable to pass on the benefit to the exporter concerned immediately, without any delay.
- 5.7. While the export of the commodity against an FEO / ELC shall remain the responsibility of the DE, the IDE would be under obligation to supply the required inputs in accordance with the terms of the ILC / SPO, failing which he shall be liable for fines under the Scheme. Payment of such fines shall, however, not absolve him from his liabilities to the DE. Likewise non-receipt of goods from the IDE, shall not absolve the DE from executing his FEC/ELC as per original schedule or within the validity of facility.
- 5.8. On deliveries of the domestic inputs and receipt of payment by the supplier i.e. IDE, the amount(s) of the finance earlier granted in his favour shall be adjusted. Likewise as the DE would have received inputs from his designated IDE, as per terms of ILC / SPO the amount disbursed by his bank, to the bank of IDE, shall become a liability of the Direct Exporter. For this purpose, the Islamic Bank should use any appropriate Islamic mode, subject to the approval of their Shariah Board.
- 5.9. It shall be obligatory on the part of the DE that all the ILCs established or SPOs issued in favour of IDEs are in relation to the supply of inputs for export and would contain the name of the exporter and Number of firm export order / contract / letter of credit. Islamic Bank

shall be under obligation to certify that the facility availed by IDE was covered by an FEO/ELC of the DE.

5.10. Islamic Bank will submit following documents to the concerned office of SBP as evidence of shipments:-

5.10.1. Appendix – “5” (to be submitted within 7 days from the expiry of period)

5.10.2. E.P.R.C. within 30 days of receipt of the proceeds or expiry of the period prescribed by SBPs Exchange Policy Department for realization of the export proceeds failing which cases of non realization will be reported by the bank to the concerned office of SBP BSC for appropriate action under the Foreign Exchange Regulations. Non-submission of EPRC, where proceeds have been realized shall attract fine

## **6. Substitution:**

6.1. In case the DE fails to make shipment under the relevant FEO / ELC on the basis of which finance / refinance has been availed by him, he shall be under obligation to produce shipping documents evidencing shipment of the export of same or any other eligible commodity valuing the amount of facility, in respect of another Firm Export Order / Export Letter of Credit. The DE will, however, undertake and confirm separately that he has neither availed of finance under this Scheme or under existing EFS (from any of the conventional bank) against any such new contract / letter of credit nor has reported or would report any entry of relevant “E” Forms already utilized by him for any other facility availed under this scheme or existing EFS.

6.2. The Islamic Bank shall introduce appropriate arrangements for making the Substitution as a Shariah compliant instrument. No facility of substitution will be available to the IDE in respect of supply of inputs to the DEs.

## **7. PART II:**

### **7.1. Procedure for the Entitlement of limit for the exporters:**

7.1.1. A DE shall be entitled to avail finance limit equivalent to 50% of his export performance during the preceding year (July-June Basis) on the basis of particulars of

export proceeds realized against export of eligible commodities under the Scheme as reported on a statement on form EE-1 (specimen attached).

- 7.1.2. The borrower concerned will prepare statement on Form EE-1 in triplicate marking Original, Duplicate and Triplicate and submit the same to his banker who will verify the contents of the aforesaid Form and shall forward it to Exchange Verification Unit (EVU) of the Exchange Policy Department of the SBP BSC (Bank) concerned for verification of the relevant entries.
- 7.1.3. The verified Original and Duplicate EE-1 shall be returned to the bank concerned by EVU within a maximum period of 25 days from the receipt of the same. The Islamic Bank concerned will resubmit the verified copy of the Duplicate Form EE-1 to the Refinance Division of the relevant Office of SBP-BSC (Bank) on or before 31st August each year for the purpose of reporting entitlement of the limit and finalizing the same by the office concerned.
- 7.1.4. On receipt of an application/ undertaking from the exporter, on Form attached with the scheme as Form 3, the bank shall provide financing facilities, to the extent of entitlement of limit to the borrower.
- 7.1.5. The limit shall be available to the DE under any Islamic mode of financing as approved by shariah board of the Islamic Bank on revolving basis out of which withdrawals may be made by him within the maximum amount of approved limit at any point of time. The individual facility shall be granted for a period not exceeding the maximum period of 180 days. The modes of financing by the bank shall have to be shariah compliant, for which a certificate from the shariah board of the bank concerned shall have to be placed on record.
- 7.1.6. The concerned office of the SBP BSC (Bank) will make available to the Islamic Bank an amount equivalent to the facilities extended by the Islamic Bank to its clients under the Scheme as SBP's share in the Musharaka Pool. The concerned office of the SBP BSC (Bank) shall be under obligation to release the facilities within 48 hours of receipt of the application complete in all respect and a demand promissory note executed by

the exporter concerned on Appendix The Islamic Bank shall also be required to submit the following documents:-

7.1.6.1. Duplicate Copy of Form EE-1 (Specimen Attached)

7.1.6.2. D.P. Note of the borrower duly endorsed in favor of SBP BSC (Bank) concerned for the value of the amount disbursed to him and due profit (on Appendix 3).

7.1.6.3. Undertaking by the borrower on Form 3 (Specimen attached) for the full value of limit. The bank shall submit the undertaking for each exporter only once.

7.1.7. It may be added that under Part II arrangements, the bank would provide financing through Islamic modes to its clients against a business proposition consisting of a single/ multiple underlying transactions.

## **7.2. Procedure for monitoring of the performance of the exporters.**

7.2.1. The DE shall be under obligation to repatriate export proceeds from the export of eligible commodities equivalent to 2.0 times of the daily average finance availed by him.

7.2.2. The borrower concerned will prepare statement on Form EF-1 in triplicate making Original, duplicate and triplicate and submit to the Islamic Bank for verification of its contents who shall forward it to the Exchange Verification Unit (EVU) of the Exchange Policy Department of the SBP BSC (Bank) concerned for verification of the relevant entries.

7.2.3. The verified Original and Duplicate EE-1 shall be returned to the bank concerned by EVU within a maximum period of 25 days from the receipt of the same. The Islamic Bank concerned will resubmit the verified copy of the Duplicate Form EE-I to the Refinance Division of the relevant Office of SBP-BSC (Bank) on or before 31st August each year for the purpose of monitoring of the performance of the exporter concerned.

7.2.4. The office concerned will examine the particulars of the entries reported in Duplicate Form EF-1, delete inapplicable entries, work out the performance on the basis of admissible entries and will charge fine as prescribed under the Scheme for any shortfall that will be observed through performance reported by the exporter/bank.

In case no Form EF-1 is received by the said office of the SBP BSC (Bank) by the aforesaid date, fine for non performance will be recovered from the bank after serving a 15 day notice to the bank concerned with a copy to the borrower at his registered address showing intention of deducting recoverable fine.

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