

# 6 Export Finance and other Refinance Schemes

*The importance of Foreign Exchange earning and its role in strengthening the position of a country need no emphasis. Its absolute necessity for settlement of international transactions has made it imperative for every country to develop its foreign exchange reserve commensurate to at least its requirement for payments in respect of visible and invisible imports. So far, exports have been the largest and most dependable source of foreign exchange earnings for Pakistan. In order to boost the exports and broaden the industrial base in the country, SBP has launched a number of short & long term financing schemes to ensure that capital requirements of export oriented industry are adequately met.*

## 6.1 Overview

Exports for any country are key to settle international payments, generating employment and increasing Foreign Exchange reserves. Whereas, SMEs are the largest group of entities, which are playing an increasingly important role in the process of export-led industrialization in most of the developing countries. Being cognizant of the fact, State Bank of Pakistan (SBP) has been encouraging exports since 1973 through its various schemes, with the objective to make funds available to meet the short and long term financing needs of the export oriented industries. Besides, schemes have also been launched by SBP for Agriculture sector as well as for flood and war affected areas of Pakistan. The schemes which are currently functional include.

- Export Finance Scheme (EFS) Part-I & Part-II
- Islamic Export Refinance Scheme (IERS)
- Long Term Financing Facility (LTFF)
- Schemes for Modernization of Cotton Ginning Factories & Rice Husking Mills
- Agri-loans Refinancing & Guarantee Scheme for KPK and FATA

## Achievements

- A total of 137,266 cases relating to grant, repayment and remuneration (share of profit) were processed under EFS (Part I &II), IERS & LTFF.
- A total of 8,942 cases amounting Rs.1,243.9 million under Export Finance Mark-Up Rate Facility' of 2.5% to the exporters of Textile Industry were processed.
- A total of 532 cases amounting Rs. 329.9 million under Mark up Rate Support for Textile Sector were processed.
- Onsite verification teams examined 14,181 cases under EFS Part I &II, and IERS during FY11 leading to imposition of penalty amounting to Rs. 9.1 million on various lapses by the banks/ exporters.
- 27 consolidated (Bank-wise) on-site verification reports were prepared and sent to IH&SMEFD, SBP.

- Financing Scheme for Power Plants using Renewable Energy
- Financing Facility for Storage of Agricultural Produce

The operations of these schemes are managed by SBP Banking Services Corporation through the Development Finance Support Department (DFSD) at head office and its field units across BSC offices. Various export oriented businesses are facilitated by these schemes which include textile, leather, rice processing, carpets, sports goods, surgical items etc.

In order to ensure that the funds availed by the exporters under SBP export refinance schemes are utilized only for promoting exports and the commercial banks/exporters are complying with SBP instructions, On-site Verification teams of SBP BSC field offices conduct on site verification of branches of commercial banks in areas of their jurisdiction. The reports of these teams are consolidated at DFSD, SBP BSC Head office and are sent to Infrastructure Housing & SME Finance Department (IH&SMEFD), SBP for taking up the irregularities pointed out in these reports with the head office of the commercial banks concerned. During FY11, 27 consolidated (Bank-wise) on-site verification reports were prepared and fine amounting to Rs. 9.1 million was recovered from banks/exporters for violation of SBP instructions detected during on-site verification as compared to Rs. 12.6 million in the preceding year. The decline in the amount of penalties is a result of on going capacity building programs for exporters and commercial banks involved in export finance business.

## **6.2 Introduction of New Schemes**

During FY11, economy was badly hit by floods. For revival of economic activities in the flood affected areas, various concessionary refinance schemes and total write off of loans for some areas were initiated by SBP in-line with the policies of Government of Pakistan. Salient features of the schemes have been discussed in the following paragraphs<sup>1</sup>:

- **Refinance Scheme for Revival of SMEs & Agricultural Activities in Flood Affected Areas**

In line with the Government of Pakistan's policy for revival of economic activities and SBP's relief measures for improving access to financing in flood affected areas, the scheme has been launched by SBP for districts notified as flood affected by the National Disaster Management Authority. Rs.10 billion were allocated for the scheme which are being used for providing funding at concessional/ affordable rates for agri. production/ working capital finance to farmers and SMEs in flood affected areas through banks. The facility was available for all farmers including owners, owner cum tenants and tenants. Banks provided agri. /SME loans as per their credit policy and SBP regulations. Banks have been encouraged to arrange for the insurance of loans provided under the scheme whereas loan insurance for five major crops viz. wheat, rice, cotton, sugarcane and maize was mandatory to avoid risk of losses due to natural calamities. The tenure of the loans was up to one year. Banks can allocate borrowing limits to farmers and SMEs depending on cash flows, repayment capacity and risk profile of the borrower. Refinance is being provided to banks at a rate of 5 percent while banks can charge a maximum spread of 3 percent from the borrower.

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<sup>1</sup> Detail of the schemes can be viewed at the link (<http://www.sbp.org.pk/smefd/circulars/2011/index.htm>).

The banks, to which limits were allocated by SBP, were advised to approach SBP-BSC offices for availing the refinance facility under the Scheme on weekly basis. The loans are repayable as per the terms agreed between the borrower and the bank within maximum one year limit. In case of early settlement, commercial bank will repay the amount to SBP BSC within seven working days and if customer defaults, bank can charge normal interest rate from him. SBP BSC will recover amount from banks within seven days of the agreed repayment date. Mark up for SMEs will be paid quarterly while for Agri. sector, it will be paid half yearly. Amount outstanding under this scheme at different field offices of BSC as on end of FY11 is Rs. 423.9 million at Bahawalpur, D.I.Khan, Faisalabad, Hyderabad, Multan, Quetta and Sukkur offices of BSC.

- **Total Write off of Loans in Malakand, Swat, Buner and Chitral Districts-Fiscal Relief to Rehabilitate the Economic Life in Khyber Pakhtunkhwa, FATA and PATA**

In the wake of devastating floods, Government of Pakistan announced total ‘write off’ of loans of Malakand, Swat, Buner and Chitral Districts. Banks/DFIs were advised to write off outstanding loans as on December 31, 2009 of the four districts and approach SBP BSC, Peshawar office for re-imbursement of their claims. Banks, Development Finance Institutions (DFIs) and Microfinance Banks (MFBs) shall bear the cost of such write offs to the extent of amount held into provision against NPLs and interest in suspense account, while the rest of the cost will be paid by the Government of Pakistan as subsidy. The loans disbursed on and after January 01, 2010 were ineligible under the scheme. The amount reimbursed was made subject to verification of SBP’s Banking Inspection Department. Banks were further advised to stop recovery and accrual of interest on such loans. . During FY11, Rs. 1,095 million were disbursed by SBP-BSC under the scheme to 13,427 beneficiaries.

- **Fiscal Relief to Rehabilitate the Economic Life in Khyber Pakhtunkhwa, FATA and PATA-Payment of mark-up rate subsidy on business loans for the period from 01-01-2010 to 30-06-2010**

In pursuance of Prime Minister’s announcement of Fiscal Relief Package to rehabilitate the economic life in Khyber Pakhtunkhwa, FATA and PATA, SBP devised a procedure for payment of mark-up subsidy to the borrowers of above mentioned areas. Effective January 1, 2010, Banks, DFIs and Micro Finance Banks (MFBs) have been advised to charge mark-up rate on all business loans (Corporate, SMEs, Agriculture & Microfinance) outstanding as on 31-12-2009 of the borrowers of Khyber Pakhtunkhwa, FATA, PATA @ 7.5% p.a. or six month KIBOR-offer side, whichever is lower, for next two years (i.e. up-to 31-12-2011) except loans extended to Cigarette, Textile, Cement, Sugar and Beverages Sectors. Loans extended on or after January 01, 2010 do not qualify for the scheme. However, rollover of outstanding amount as on December 30, 2009 is eligible. Loans booked outside Khyber Pakhtunkhwa, FATA and PATA on behalf of businesses operating /located in these areas shall also qualify. Banks/DFIs shall charge maximum rate of 7.5 percent p.a. on principal amount of outstanding loans of the borrowers of Khyber Pakhtunkhwa, FATA and PATA and differential between 7.5 percent p.a. and applicable six month KIBOR would be borne by Government of Pakistan as subsidy. Banks, DFIs and MFBs shall seek reimbursement from SBP-BSC (Bank), Peshawar

as per these guidelines and the amount reimbursed by SBP-BSC (Bank) shall be subject to on-site inspection. During FY11, Rs. 466 million were disbursed under this scheme to 23,033 beneficiaries.

- **Concessional Financing & Guarantee Scheme for Canola Cultivation in Flood Affected Areas**

For reviving economic activities in flood affected areas, SBP announced a scheme for sowing of Canola in Rabi season for farmers of flood affected districts/regions as identified by the Ministry of Food & Agriculture (MINFA). Commercial Banks and Zarai Taraqiati Bank can extend credit to their customers on concessional rates under the scheme. SBP will also provide credit guarantee up to thirty percent of the bonafide losses to banks against the loans disbursed under the scheme. All categories of farmers (owner, owner cum tenant and tenant) of the specified areas are eligible for the scheme. Banks shall provide agri. loans to farmers as per their own credit policy & SBP regulations and shall also arrange for the insurance of loans under the scheme. Tenure of the loan can be up to six months. Banks have been allowed to cap maximum borrowings by each borrower according to its funding requirements, cash flows, repayment capacity and profile. Refinance under the scheme shall be provided to the banks at 5 percent p.a. whereas the banks are permitted to charge a maximum spread of 3 percent p.a. from the borrowers availing credit under the scheme. The banks can approach SBP-BSC offices for availing the refinance facility under the Scheme on weekly basis, once limits are approved and communicated to the banks concerned. Principal amount of loans under the scheme shall have to be repaid on the agreed date between bank and the borrower, however, not later than 60 days from the date of harvest of the crop. In case of early repayment, bank will repay to SBP within seven days. Banks have been advised to ensure proper utilization of the scheme for the desired purpose and carry out due diligence in evaluating the cases. In case, bank declines any request under the scheme, it has to provide explicit reasons for its action. Financing under the Scheme shall be checked/verified by SBP's Banking Inspection Department (BID)/ SBP-BSC Bank to ensure that the same have been allowed as per the terms and conditions of the Scheme.

### **6.3 Major Modifications/Changes in Existing Schemes**

#### **6.3.1 Modifications in Export Finance Scheme**

EFS is in operation since 1973. Under the scheme SBP through SBP BSC offices provides short term working capital financing for upto 180 days to the exporters against their exports. During the year under review, following major modifications were done by SBP in the scheme.

- **Reduction in Export Performance Requirements under Part-II of EFS for Hand Knotted Carpets**

The performance requirement for financing facilities availed under EFS Part II for Hand Knotted carpets during FY 11 has been relaxed to 1.50 times instead of existing performance requirements of 2.0 times.

- **Revision in the Format of EE-1 & EF-1 Statements**

In order to strengthen the monitoring mechanism of finance provided under EFS Part II, the contents and format of EE-1 and EF-1 statements have been amended.

- **Revision of Financing Rates under EFS**

The financing rates under EFS have been enhanced twice during FY11, once from 8.5 percent to 9 and then to 10 percent. The spread allowed to commercial banks remained fixed at 1 percent. Same rates are applicable for financing facilities under Part-B (Export Sales) of the Scheme for financing Locally Manufactured Machinery.

### 6.3.2 Modifications in Long Term Financing Facility

- **Eligibility of Glass Sector**

Financing for plant, machinery & equipment to be used by the export oriented projects in Glass Sector for producing exportable goods was also made eligible under the LTFF.

- **Eligibility of Packaging / Preservations of Food Items**

Plant and machinery used in the export oriented projects for producing packaging material exclusively used in packaging / preservation of food items was also made eligible for refinance under the Scheme.

- **Revised Maximum Borrowing Limit**

The maximum financing limit to a single export oriented project under LTFF Scheme has been upward revised from Rs. 1,000 million to Rs. 1,500 million.

- **Requirement of Projected Exports**

Banks/DFIs had been allowed to entertain financing requests for export oriented projects on the basis of projected exports criteria. Criteria for meeting the minimum exports targets under the LTFF has been revised by SBP and henceforth Minimum Export Target (viz. annual exports of US\$5 million or 50 percent of sales, whichever is lower) will be met by the refinance availing unit within a maximum period of four (04) years, from the date of grant of refinance from SBP-BSC (Bank), in a phased manner. In the first phase, 40 percent of the export target will be required to be met in first two years while remaining 60 percent target will be met during next two years or total tenure of loan, whichever is less, as given in the Table 6.1. In the case of failure to meet above projected export targets, fine will be imposed as per the defined criteria.

Table 6.1: Minimum Export Targets

|                              |  |
|------------------------------|--|
| First Two Years – 40%        | <b>Annual exports of US\$ 2m or 20% of sales, whichever is</b> |
| Next Two Years - 60%         | <b>Annual exports of US\$ 3m or 30% of sales, whichever is</b> |
| Total Exports in Four Years. | <b>Annual exports of US\$ 5m or 50% of sales, whichever is</b> |

Table 6.2: Revision of Financing Rates under LTFF

| Period of financing  | Rate of Refinance | PFI's Spread | End User's Rate |
|----------------------|-------------------|--------------|-----------------|
| Upto 3y              | 9.50%             | 1.50%        | 11.00%          |
| Over 3y and upto 5y  | 8.60%             | 2.50%        | 11.10%          |
| Over 5y and upto 10y | 8.20%             | 3.00%        | 11.20%          |

- **Revision of Financing Rates under LTFF**

The financing rates for PFIs and end borrowers have been changed on Sep 30, 2011. Revised rates (**Table 6.2**).

### **6.3.3 Modifications in Other Schemes**

- **Refinance Scheme for Revival of SMEs & Agricultural Activities in Flood Affected Areas-Expansion in Scope**

In order to further encourage the utilization of facility, SBP relaxed the terms and extended scope of the scheme. Financing for non farm sector was also allowed besides extending the period of repayment by the commercial banks to SBP from 7 days to 15 days after due date of repayment. In addition, validity of the scheme has been extended to November 30, 2012. Nevertheless, Banks and DFIs will not provide more than 25 percent of the credit to non-farm sector out of limit for agricultural financing. The allocated limits will be available till the expiry date of the scheme. However, limit may be enhanced and banks with branches in flood affected areas may apply for fresh limits.

## **6.4 Role of SBP-BSC in Credit Disbursement under EFS and other Refinance Schemes**

The Operations of SBP export refinance schemes i.e., EFS (Part I & II), IERS, LTFF and other refinance schemes introduced for priority sectors from time to time are managed by Refinance Schemes Unit (RSU) (formerly Export Refinance Division) of DFSD, SBP BSC. The BSC filed offices are providing refinance facility to the commercial banks/ DFIs against financing provided by them under EFS and IERS (Part I & II) to the exporters for the export of eligible commodities as well as to the borrowers under other SBP refinance schemes to the extent of limits assigned to them by IH&SMEFD, SBP. The RSU also ensures timely recovery of principal and mark up in respect of these loans from commercial banks on due dates. On-site verification of commercial banks with regard to SBP refinance schemes is also a very important task being carried out by field offices of SBP BSC. On-site verification teams of SBP BSC ensure that the bank branches availing concessionary schemes comply with instructions of schemes in letter and spirit. During FY11, the performance of BSC offices towards the implementation of SBP refinance schemes is discussed in the following sections.

### **6.4.1 Conventional Export Finance Scheme Part I & II**

The main purpose of EFS is to earn Foreign Exchange for Pakistan by boosting exports of the country. This scheme is meant for providing working capital/short term financing to exporters so that they can manufacture goods for onward export. Under the scheme, financing facilities are available to exporter for eligible commodities. The EFS operates in two parts viz Part-I and II. The BSC offices process refinances requests within 48 hours from the date of receipt of the claims from commercial banks. Consequently, the banks are required to repay the refinance on realization of export proceeds in full or part thereof as the case may be, within three working days for Part I and on same day of repayment under Part II 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 banks' account maintained with it. This financing facility under EFS is provided to the exporters for a period of 180 days and for 270 days for hand-knotted carpets.

During FY11, a total of 115,188 cases relating to grant, repayment and remuneration (share of profit) were processed by the BSC offices under EFS (Part I&II) as compared to 123,332 cases processed during FY10 (**Table 6.3 & Figure 6.1**).

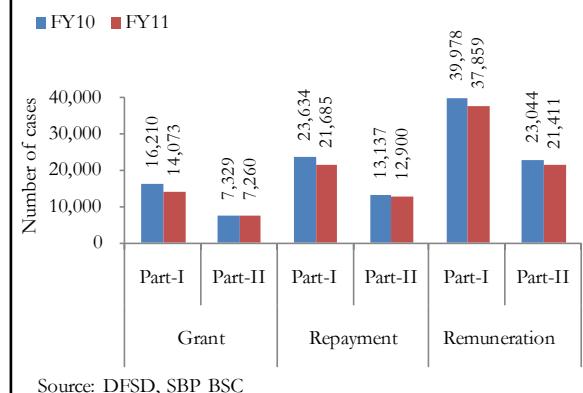
During the period under review, a total of 20,962 fine cases were processed for violation of various clauses of export finance schemes by the offices as compared to 29,638 fine cases processed in FY10. The refund cases also witnessed considerable decline as 2,542 cases of refund were processed during period under review as compared to 11,863 refund cases of previous year (**Table 6.4**).

The decline in refund cases is mainly due to the fact that IH&SMEFD, in order to ensure timely disposal of such cases and to avoid difficulties in processing of refund of fine claims, has issued the instructions<sup>2</sup>, that no request(s) for refund of fine(s) shall be entertained after expiry of 3 years from the date of recovery of fine on account of various violations under the EFS of such cases, as sometimes banks/exporters were submitting such claims when the record of case/loan is not readily available and the period of preservation of record had also expired.

**Table 6.3: Number of Transactions Executed/ Processed Relating to Flows under EFS (Part I & II)**

| Office       | Grant         |              |               |              | Repayment     |               |               |               | Remuneration  |               |               |               |
|--------------|---------------|--------------|---------------|--------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
|              | FY10          |              | FY11          |              | FY10          |               | FY11          |               | FY10          |               | FY11          |               |
|              | Part I        | Part II      | Part I        | Part II      | Part I        | Part II       | Part I        | Part II       | Part I        | Part II       | Part I        | Part II       |
| Faisalabad   | 1,256         | 1,729        | 1,235         | 1,615        | 3,904         | 6,436         | 3,874         | 6,106         | 6,845         | 11,293        | 6,819         | 10,126        |
| Gujranwala   | 80            | 257          | 57            | 281          | 66            | 332           | 118           | 273           | 216           | 693           | 208           | 715           |
| Hyderabad    | 4             | -            | 25            | -            | 2             | -             | 22            | -             | 2             | -             | 22            | -             |
| Islamabad    | 37            | 69           | 11            | 53           | 104           | 47            | 39            | 67            | 159           | 135           | 23            | 154           |
| Karachi      | 10,726        | 2,108        | 9,176         | 2,008        | 13,612        | 2,624         | 12,186        | 2,667         | 23,643        | 5,492         | 21,952        | 4,987         |
| Lahore       | 3,597         | 947          | 3,115         | 1,015        | 5,428         | 1,169         | 4,945         | 1,155         | 8,347         | 2,517         | 8,114         | 2,409         |
| Multan       | 21            | 37           | 15            | 42           | 20            | 34            | 20            | 39            | 51            | 98            | 38            | 108           |
| Peshawar     | 2             | 45           | 1             | 42           | 2             | 47            | 1             | 42            | 2             | 107           | 1             | 112           |
| Quetta       | -             | 6            | -             | 4            | -             | 4             | -             | 3             | -             | 8             | -             | 9             |
| Rawalpindi   | 26            | 38           | 24            | 26           | 39            | 29            | 22            | 34            | 31            | 29            | 30            | 34            |
| Sialkot      | 46            | 1,948        | 36            | 2,030        | 46            | 2,268         | 63            | 2,363         | 46            | 2,268         | 63            | 2,363         |
| Sukkur       | 415           | 145          | 378           | 144          | 411           | 147           | 395           | 151           | 636           | 404           | 589           | 394           |
| <b>Total</b> | <b>16,210</b> | <b>7,329</b> | <b>14,073</b> | <b>7,260</b> | <b>23,634</b> | <b>13,137</b> | <b>21,685</b> | <b>12,900</b> | <b>39,978</b> | <b>23,044</b> | <b>37,859</b> | <b>21,411</b> |

**Figure 6.1: Volume of grant, repayment and remuneration transactions under EFS**



Source: DFSD, SBP BSC

<sup>2</sup> SMEFD Circular Letter No. 10 of 2010, dated June 29, 2010

**Table 6.4: Number of Transactions Executed/ Processed Relating to Fine & Refund under EFS (Part I & II)**

| Office     | Fine   |         |        |         | Refund |         |        |         |
|------------|--------|---------|--------|---------|--------|---------|--------|---------|
|            | FY10   |         | FY11   |         | FY10   |         | FY11   |         |
|            | Part I | Part II |
| Faisalabad | 1,517  | 2,575   | 2,169  | 1,647   | 169    | 21      | 123    | 3       |
| Gujranwala | 126    | 108     | 189    | 133     | 50     | 27      | 56     | 14      |
| Hyderabad  | 6      | -       | 12     | -       | 1      | -       | 1      | -       |
| Islamabad  | 102    | 9       | 75     | 35      | 17     | 5       | 8      |         |
| Karachi    | 17,006 | 1,595   | 8,628  | 948     | 8,315  | 838     | 1,486  | 190     |
| Lahore     | 4,968  | 300     | 5,465  | 526     | 2,101  | 270     | 578    | 38      |
| Multan     | 20     | 50      | 19     | 39      | 2      | 10      | 4      | 2       |
| Peshawar   | 1      | 15      | 3      | 18      | -      | -       | 1      | 1       |
| Quetta     | -      | 4       | -      | 4       | -      | -       | -      | -       |
| Rawalpindi | 68     |         | 55     | 7       | 4      | 9       | 3      | -       |
| Sialkot    | 65     | 1,037   | 132    | 783     | 9      | 7       | 26     | 8       |
| Sukkur     | 62     | 4       | 66     | 9       | 6      | 2       | -      | -       |
| Total      | 23,941 | 5,697   | 16,813 | 4,149   | 10,674 | 1,189   | 2,286  | 256     |

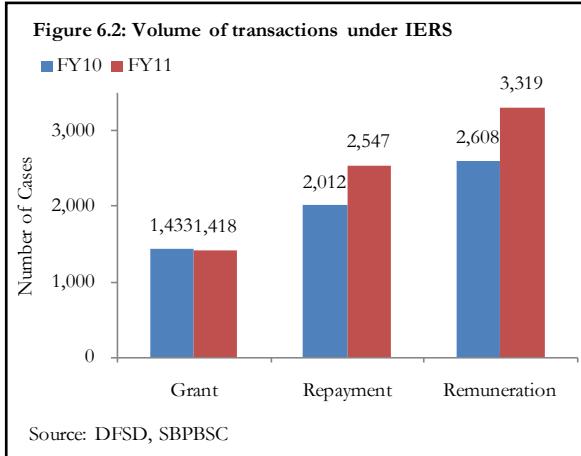
**Table 6.5: Number of Transactions Executed/Processed Relating to Flows under IERS (Part I & II)**

| Office     | Grant  |         |        |         | Repayment |         |        |         | Remuneration |         |        |         |
|------------|--------|---------|--------|---------|-----------|---------|--------|---------|--------------|---------|--------|---------|
|            | FY10   |         | FY11   |         | FY10      |         | FY11   |         | FY10         |         | FY11   |         |
|            | Part I | Part II | Part I | Part II | Part I    | Part II | Part I | Part II | Part I       | Part II | Part I | Part II |
| Faisalabad | 6      | 181     | 5      | 163     | 27        | 601     | 27     | 588     | 34           | 644     | 45     | 965     |
| Gujranwala | -      | 6       | -      | 7       | -         | 7       | -      | 8       | -            | 10      | -      | 19      |
| Islamabad  | -      | -       | -      | -       | -         | 1       | -      | -       | -            | 1       | -      | -       |
| Karachi    | 96     | 633     | 170    | 577     | 104       | 673     | 227    | 1060    | 154          | 873     | 327    | 1,363   |
| Lahore     | 37     | 294     | 36     | 298     | 35        | 401     | 69     | 390     | 80           | 639     | 42     | 376     |
| Rawalpindi | -      | 4       | -      | -       | -         | 4       | -      | 2       | -            | 14      | -      | 6       |
| Sialkot    | -      | 176     | -      | 162     | -         | 159     | -      | 176     | -            | 159     | -      | 176     |
| Total      | 139    | 1,294   | 211    | 1,207   | 166       | 1,846   | 323    | 2,224   | 268          | 2,340   | 414    | 2,905   |

#### 6.4.2 Islamic Export Refinance Scheme

Islamic banking in Pakistan has witnessed significant growth and recognition from stakeholders. IERS of SBP aims to provide level playing field to Islamic banks and dedicated Islamic branches of conventional banks for facilitating exporters having preferences for the Shariah compliant working capital finance. Operations of IERS are similar to EFS except the rate of refinance, which is not fixed under IERS.

During FY11 the Islamic banks & Islamic branches of conventional banks availed Islamic refinance facilities under the scheme from 7 BSC offices. 7,284 transactions regarding grant, repayment of loans and remuneration (share of profit) under IERS were processed by the field offices of BSC during FY11 as against 6,053 transactions during FY10 (**Table 6.5 & Figure 6.2**).



Fine and refund cases relating to Islamic Export Refinance were processed at Lahore and Karachi offices. 274 fine cases were processed under Part-I & Part-II of the IERS in FY11 as compared to 183 cases in FY10. 25 refund cases were processed in FY11 as compared to 124 cases processed in FY10 under IERS (**Table 6.6**).

**Table 6.6: Number of Transactions Executed/ Processed Relating to Fine & Refund under Islamic Export Refinance Scheme (Part I & II)**

| Office       | Fine       |         |            |           | Refund    |           |           |         |
|--------------|------------|---------|------------|-----------|-----------|-----------|-----------|---------|
|              | FY10       |         | FY11       |           | FY10      |           | FY11      |         |
|              | Part I     | Part II | Part I     | Part II   | Part I    | Part II   | Part I    | Part II |
| Karachi      | 143        | -       | 162        | -         | 70        | -         | 19        | -       |
| Lahore       | 40         | -       | 70         | 42        | 14        | 40        | 6         | -       |
| <b>Total</b> | <b>183</b> | -       | <b>232</b> | <b>42</b> | <b>84</b> | <b>40</b> | <b>25</b> | -       |

#### 6.4.3 Long Term Financing Facility

LTFF provides necessary finance to exporters for adoption of new technology and updating of their plant and machinery in line with international competitive environment. SME Exporters can avail financing under this facility through Participating Financial Institution (PFIs) for purchase of imported and locally manufactured plant and machinery. This facility is available to export oriented projects with at least 50 percent of their sales constituting exports or annual exports equivalent to US\$ 5 million, whichever is lower. Islamic banks are eligible for offering LTFF subject to availability of Shariah complaint compatible product duly approved by the bank's and SBP's Shariah advisor and cleared by SBP's Shariah Board. Loans are repayable within a maximum period of 10 years including maximum grace period of 2 years. The BSC field offices processed a total of 14,794 transactions relating to grant, repayment and remuneration under LTFF during the period under review as against 10,022 transactions processed during the corresponding previous year (**Table 6.7**).

**Table 6.7: Transactions Executed/ Processed Relating to Flows under LTFF**

| Office       | Grant      |            | Repayment    |              | Remuneration |              |
|--------------|------------|------------|--------------|--------------|--------------|--------------|
|              | FY10       | FY11       | FY10         | FY11         | FY10         | FY11         |
| Faisalabad   | 34         | 39         | 28           | 25           | 678          | 710          |
| Gujranwala   | 1          | 2          | -            | 2            | -            | 11           |
| Islamabad    | 2          | 8          | 11           | 20           | 30           | 42           |
| Karachi      | 410        | 438        | 901          | 3,651        | 6,154        | 7,829        |
| Lahore       | 43         | 43         | 500          | 674          | 1,159        | 1,107        |
| Multan       | 21         | 21         | 2            | 26           | 40           | 126          |
| Sialkot      | -          | -          | 4            | 10           | 4            | 10           |
| <b>Total</b> | <b>511</b> | <b>551</b> | <b>1,446</b> | <b>4,408</b> | <b>8,065</b> | <b>9,835</b> |

#### 6.4.4 Export Finance Markup Rate Facility

Government of Pakistan has announced 'Export Finance Mark-Up Rate Facility' of 2.5 percent to the exporters of Textile Industry on outstanding loans availed by the industry from commercial banks for export of eligible commodities under SBP's Export Finance Scheme. BSC Offices processed a total of 8,942 cases amounting Rs.1,243.8 million during FY11 as against 1,186 cases amounting Rs. 1144.7 million during corresponding previous period (**Table 6.8**).

**Table 6.8: Transactions Executed/ Processed Relating to Export Finance Markup Rate Facility**

| Office     | FY10                   |                             | FY11                   |                             |
|------------|------------------------|-----------------------------|------------------------|-----------------------------|
|            | No. of cases Processed | Amount<br>(Rs. In millions) | No. of cases Processed | Amount<br>(Rs. In millions) |
| Faisalabad | 305                    | 237.2                       | 1,200                  | 380.2                       |
| Gujranwala | 4                      | 0.4                         | 4                      | 0.3                         |
| Islamabad  | 4                      | 2.8                         | 2                      | 1.5                         |
| Karachi    | 560                    | 608.1                       | 7,419                  | 663.2                       |
| Lahore     | 232                    | 287.0                       | 237                    | 171.8                       |
| Multan     | 70                     | 1.4                         | 1                      | 0.0                         |
| Rawalpindi | 11                     | 7.8                         | 21                     | 12.4                        |
| Sialkot    | -                      | -                           | 57                     | 14.3                        |
| Sukkur     | -                      | -                           | 1                      | 0.1                         |
| Total      | 1,186                  | 1,144.7                     | 8,942                  | 1,243.8                     |

#### **6.4.5 Export Finance Mark-up Rate Facility for Textile Sector**

Government of Pakistan also announced Mark up Rate Support for Textile Sector on their outstanding running balances of principal amount of floating rate loans availed by the industry from commercial banks/DFIs for financing import / purchase of textile machinery. During the period under review, a total of 532 cases amounting Rs. 329.9 million were processed as against 572 cases amounting Rs. 522.6 million processed during FY10 (**Table 6.9**).

**Table 6.9: Transactions Executed/ Processed Relating to the cases processed under Export Finance Mark up Rate Support for Textile Sector against Long Term Loans Schemes Facility**

| Office     | FY10                   |                            | FY11                   |                            |
|------------|------------------------|----------------------------|------------------------|----------------------------|
|            | No. of cases Processed | Amount<br>(Rs. In million) | No. of cases Processed | Amount<br>(Rs. In million) |
| Faisalabad | 120                    | 67.0                       | 98                     | 35.9                       |
| Hyderabad  | 1                      | 3.3                        | 1                      | 1.2                        |
| Islamabad  | 8                      | 13.2                       | 1                      | 0.8                        |
| Karachi    | 225                    | 210.4                      | 220                    | 147.9                      |
| Lahore     | 203                    | 144.0                      | 157                    | 93.4                       |
| Multan     | 6                      | 74.4                       | 52                     | 50.6                       |
| Peshawar   | 6                      | 10.2                       | -                      | -                          |
| Rawalpindi | 3                      | 0.1                        | 3                      | 0.1                        |
| Total      | 572                    | 522.6                      | 532                    | 329.9                      |

#### **6.4.6 Amount outstanding under SBP Financing Schemes**

The aggregate amount of loans outstanding under different SBP refinance schemes slightly increased from Rs. 231,901 million as of 30<sup>th</sup> June 2010 to Rs. 238,301 million as on 30<sup>th</sup> June 2011 (**Table 6.10**). The scheme wise detail in respect of outstanding amount as on end-June 2011 viz-a-viz end-June 2010 has been mentioned in Table 6.11. The data transpires that the outstanding amount as on end-June 2011 under EFS Part-I, Part-II and LMM fairly remained

**Table 6.10: Summary of Amount Outstanding Against SBP Concessionary Schemes**  
(Rs in millions)

| Description of Transactions                        | FY10           | FY11           |
|--|----------------|----------------|
| 1 Conventional EFS (Part I & II) & LMM             | 178,420        | 178,195        |
| 2 Islamic export Refinance Scheme                  | 10,816         | 15,385         |
| 3 Long Term Financing Facility                     | 16,899         | 26,602         |
| 4 Long Term Financing for Export Oriented Projects | 25,765         | 16,174         |
| 5 Other Schemes                                    | 0.65           | 1,945          |
| <b>Total</b>                                       | <b>231,901</b> | <b>238,301</b> |

**Table 6.11: Office wise Detail of Amount Outstanding under SBP Concessionary Financing Scheme**

| Office     | Conventional EFS (Part I & II) & LMM |         |       |        |         |       | Islamic Export Refinance Scheme |         |        |         | Long Term Financing Facility |        | Long Term Financing for Export Oriented Projects |        | Other Refinance schemes |       | Rs. In million |
|------------|--------------------------------------|---------|-------|--------|---------|-------|---------------------------------|---------|--------|---------|------------------------------|--------|--|--------|-------------------------|-------|----------------|
|            | FY10                                 |         |       | FY11   |         |       | FY10                            |         | FY11   |         | FY10                         | FY11   | FY10   | FY11   | FY10                    | FY11  |                |
|            | Part I                               | Part II | LMM   | Part I | Part II | LMM   | Part I                          | Part II | Part I | Part II |                              |        |  |        |                         |       |                |
| Bahawalpur |                                      |         |       |        |         |       |                                 |         |        |         |                              |        |  |        |                         |       | 9              |
| Faisalabad | 5,825                                | 26,598  | -     | 5,952  | 24,784  | -     | 100                             | 1,990   | 30     | 1,809   | 1,230                        | 1,699  | 3,353  | 2,069  | -                       | 56    |                |
| Gujranwala | 585                                  | 3,949   | -     | 302    | 4,154   | -     | -                               | -       | 50     | -       | 52                           | 36     | 58   | -      | -                       | -     | 46             |
| Hyderabad  | 0.3                                  | -       | -     | 26     | -       | -     | -                               | -       | -      | -       | -                            | -      | -  | -      | -                       | -     | 102            |
| Islamabad  | 256                                  | 2,353   | -     | 177    | 2,983   | -     | -                               | -       | -      | -       | 111                          | 682    | 32   | 11     | -                       | 135   |                |
| Karachi    | 26,566                               | 56,498  | 3,615 | 19,562 | 58,574  | 3120  | 430                             | 6,356   | 2135   | 8582    | 12,655                       | 19,228 | 13,354   | 8,773  | -                       | 884   |                |
| Lahore     | 14,735                               | 23,756  | -     | 13,395 | 31,190  | -     | 331                             | 1,115   | 89     | 2344    | 2,073                        | 3310   | 5,572  | 2,843  | -                       | 12    |                |
| Multan     | 185                                  | 462     | -     | 100    | 516     | -     | -                               | -       | -      | -       | 794                          | 1625   | 3,401  | 2,471  | -                       | 99    |                |
| Peshawar   | -                                    | 803     | -     | -      | 775     | -     | -                               | -       | -      | -       | -                            | -      | -  | 26     | 7                       | 0.65  | 5              |
| Quetta     | -                                    | 87      | -     | -      | 100     | -     | -                               | -       | -      | -       | -                            | -      | -  | -      | -                       | -     | 309            |
| Rawalpindi | 57                                   | 2,116   | -     | 351    | 1,337   | -     | -                               | 85      | -      | -       | -                            | -      | -  | 27     | -                       | -     | -              |
| Sialkot    | 247                                  | 9,488   | -     | 33     | 10,494  | -     | -                               | 359     | -      | 344     | -                            | -      | -  | -      | -                       | -     | -              |
| Sukkur     | 25                                   | 214     | -     | 24     | 246     | -     | -                               | -       | -      | -       | -                            | -      | -  | -      | -                       | -     | 288            |
| Total      | 48,481                               | 126,324 | 3,615 | 39,922 | 135,153 | 3,120 | 861                             | 9,955   | 2,254  | 13,131  | 16,899                       | 26,602 | 25,765   | 16,174 | 0.65                    | 1,945 |                |

the same as compared to previous year. The outstanding amount under IERS increased from Rs. 10.8 billion as on end-June 2010. to Rs. 15.4 billion as on end-June 2011. The end-June outstanding amount under LTFF also increased from Rs. 16.9 billion in FY10 to Rs.26.6 billion in FY11. The amount outstanding under the defunct Long Term Financing for Export Oriented Projects has decreased from Rs.25.8 billion to Rs. 16.2 billion. The outstanding amount under other refinance schemes witnessed considerable increase from Rs 0.65 million to Rs. 1,945 million. The sizable increase in the amount outstanding under this head is mainly attributable to disbursement under the scheme “Financing Facility for Storage of Agricultural Produce” during FY11.

#### 6.4.7 On Site Verification of Export Finance Cases

The verification teams of the BSC offices examined the EFS/IERS loan cases along with the underlying documents at the concerned branches of commercial banks in accordance with the schedule approved by the Central EFS Verification Unit of DFSD, SBP BSC HOK. The on-site verification exercise ensures that the funds availed by the exporters are not misused and the banks are observing the SBP instructions in letter and spirit while extending the finance under the scheme. On-site verification exercise is undertaken on yearly basis and central EFS verification unit at DFSD, BSC HOK manages and monitors the entire process from the issuance of the verification schedule till the finalization and submission of consolidated bank wise on site verification reports to IH&SMEFD, SBP.

During FY11, the verification teams of BSC offices visited 269 bank branches across the country as compared to 404 bank branches visited last year. The centralization of work related to export and trade by commercial banks at few branches has resulted into reduction in number of branches visited by the verification teams. The teams however, examined 8,692 cases under EFS Part I during FY11 as against 11,037 cases during the corresponding period leading to imposition of penalty on various lapses amounting to Rs. 6.1 million during FY11 as compared to Rs. 9.4 million in last year. The teams examined 5,115 cases and recovered penalty amounting to Rs. 2.7 million on account of various irregularities under Part-II as compared to 5,860 cases with penalties of Rs. 2.3 million in the previous year. 374 cases of IERS were verified during current year with fines amounting Rs. 344,531 as against 434 cases of FY10 with fines of Rs. 806,436. Though the number of cases verified has reduced during the year, however the teams invariably ensured verification of 70 % refinance granted under EFS (**Table 6.12 & 6.13**).

Table 6.12: On-site Verification of EFS Cases

| Office            | Bank Branches Visited | Under EFS Part-I         |               |                                  |              | Under EFS Part-II        |              |                                  |                | Islamic Export Refinance Scheme |             |                                  |              |              |
|-------------------|-----------------------|--------------------------|---------------|----------------------------------|--------------|--------------------------|--------------|----------------------------------|----------------|---------------------------------|-------------|----------------------------------|--------------|--------------|
|                   |                       | Number of Cases Verified |               | Fine Recovered (thousand Rupees) |              | Number of Cases Verified |              | Fine Recovered (thousand Rupees) |                | Number of Cases Verified        |             | Fine Recovered (thousand Rupees) |              |              |
|                   |                       | FY10                     | FY11          | FY10                             | FY11         | FY10                     | FY11         | FY10                             | FY11           | FY10                            | FY11        | FY10                             | FY11         |              |
| <b>Faisalabad</b> | 47                    | 51                       | 991           | 1,014                            | 862.1        | 676.4                    | 1,592        | 1,605                            | 512.8          | 1,630.4                         | 49          | 133                              | 24.2         | 47.4         |
| Gujranwala        | 75                    | 37                       | 32            | 61                               | 110.1        | 1.8                      | 366          | 216                              | 410.9          | 284.3                           | 6           | 9                                | -            | -            |
| Hyderabad         | -                     | -                        | 4             | -                                | -            | -                        | -            | -                                | -              | -                               | -           | -                                | -            | -            |
| Islamabad         | 9                     | 12                       | 62            | 75                               | 15.0         | 0.2                      | 23           | 69                               | 5.4            | 5.9                             | -           | -                                | -            | -            |
| Karachi           | 141                   | 79                       | 7,054         | 5,310                            | 2,878.6      | 2,582.1                  | 1,681        | 1,145                            | 839.0          | 650.1                           | 32          | 3                                | 580.7        | 4.0          |
| Lahore            | 62                    | 33                       | 2,553         | 2,020                            | 5,276.7      | 2,813.4                  | 741          | 562                              | 466.6          | 35.5                            | 172         | 159                              | 200.3        | 250.9        |
| Multan            | 7                     | 11                       | 6             | 5                                | -            | -                        | 22           | 23                               | 32.2           | 28.2                            | -           | -                                | -            | -            |
| Peshawar          | 12                    | 10                       | -             | 2                                | -            | 0.1                      | 46           | 45                               | -              | 42.1                            | 46          | 47                               | -            | 42.2         |
| Quetta            | 3                     | 2                        | -             | -                                | -            | -                        | 5            | 4                                | 0.9            | 5.7                             | -           | -                                | -            | -            |
| Rawalpindi        | 5                     | 8                        | 34            | 26                               | 326.3        | -                        | 6            | 34                               | -              | 0.5                             | 2           | -                                | -            | -            |
| Sialkot           | 36                    | 22                       | 56            | 15                               | 1.0          | 1.0                      | 1,218        | 1,325                            | 20.8           | 19.9                            | 127         | 23                               | 1.3          | -            |
| Sukkur            | 7                     | 4                        | 245           | 164                              | 14.2         | 46.2                     | 160          | 87                               | -              | -                               | -           | -                                | -            | -            |
| <b>Total</b>      | <b>404</b>            | <b>269</b>               | <b>11,037</b> | <b>8,692</b>                     | <b>9,484</b> | <b>6,121.2</b>           | <b>5,860</b> | <b>5,115</b>                     | <b>2,288.6</b> | <b>2,702.5</b>                  | <b>434.</b> | <b>374</b>                       | <b>806.4</b> | <b>344.5</b> |

Twenty seven (27) consolidated bank-wise EFS verification reports were prepared and compiled by the Central EFS Verification Unit, DFSD SBP-BSC HOK in the light of the findings of verification teams of BSC offices and sent to SME Finance Department SBP as on 30<sup>th</sup> June, 2011.

## 6.5 Awareness/Capacity Building Programs

During the period under review, six capacity building programs were arranged for employees of SBP BSC about EFS schemes and on-site verification at NIBAF Islamabad and Karachi. A total of 127 employees of BSC were trained during these trainings. Two awareness

Table 6.13. Summary Showing the Verification Data

Fine in thousand Rupees, Cases in Numbers

| Description           | FY10    | FY11    |
|-----------------------|---------|---------|
| Bank Branches Visited | 404     | 269     |
| <b>Part I</b>         |         |         |
| Cases Verified        | 11,037  | 8,692   |
| Fine Recovered        | 9,484   | 6,121.2 |
| <b>Part-II</b>        |         |         |
| Cases Verified        | 5,860   | 5,115   |
| Fine Recovered        | 2,288.6 | 2,702.5 |
| <b>IERS-II</b>        |         |         |
| Cases Verified        | 434     | 374     |
| Fine Recovered        | 806.4   | 344.5   |

programmes were arranged about Refinance Schemes of SBP in co-ordination with IH&SMEFD and fifteen programs were arranged at different filed offices across the country about different new schemes launched by IH&SMEFD. Representatives from IH&SMEFD also gave presentations and responded to queries raised by participants during these sessions. Refinance schemes for revival of SMEs and agricultural activities in flood affected areas remained in focus during these awareness programs.

The objective of these training programs and awareness sessions was to sensitize the stake holders about the salient features of schemes as well as to build the capacity of SBPBSC and Commercial Bank's staff regarding processing and documentation of the cases. These sessions have helped in reducing irregularities committed by the banks in the cases, imposition of lesser penalty and enhanced compliance of SBP instructions by the banks.