

## 6 Export Finance and other Refinance Schemes

*Maximizing inflow of export receipts has always been a priority area for policy makers in Pakistan including SBP management. Apart from encouraging higher production of export surpluses, exporters are being provided with easy and efficient access to bank credit as incentive for promotion of exports. For achieving this objective, SBP has launched a number of short & long term financing schemes to ensure that capital requirements of exporters and export oriented industry are adequately met.*

### 6.1 Overview

Exportable surplus plays an important role in economic growth and development of a country. It defines compatibility of local products with rest of the world and helps establish exchange parity of domestic currency in relation to other countries' currencies. Export earnings when exceed import bill give boost to Foreign Exchange reserves which in turn brings stability in currency exchange rate and allows space for doing medium and long-term investment decision with more confidence.

To boost foreign exchange earnings and promote investment in export oriented industries, State Bank of Pakistan has

been encouraging exporters and investors since its very inception. Various credit priority schemes have been introduced by SBP to help exporters and small & medium entrepreneurs. The operational aspects of these schemes are managed by Development Finance Support Department (DFSD), Head Office, Karachi in coordination with its field units across BSC offices. Mostly providing support to production sector, these schemes cover export oriented businesses including textile, leather, rice processing, carpets, sports goods, surgical items, etc. Besides, other incentive schemes have recently been launched by SBP for agriculture and power sectors which include:

- Agri-loans Refinancing & Guarantee Scheme for KPK and FATA
- Financing Scheme for Power Plants using Renewable Energy
- Financing Facility for Storage of Agricultural Produce
- Revival of SMEs & Agricultural Activities in Flood Affected Areas
- Export Finance Mark up Rate Facility

### Highlights

- A total of 105,200 cases relating to grant, repayment and remuneration (share of profit) were processed under EFS (Part I &II), IERS & LTFF.
- A total of 7,995 cases amounting to Rs.439.2 million under 'Export Finance Mark-Up Rate Facility' of 2.5% to the exporters of Textile Industry were processed.
- Onsite verification teams examined 15,804 cases under EFS Part I &II, and IERS during FY12 leading to imposition of penalty amounting to Rs. 10.8 million on various lapses by the banks/ exporters.
- Thirty six consolidated (Bank-wise) on-site verification reports were prepared and sent to IH&SMEFD, SBP.

## 6.2 Major Modifications/Changes in Existing Schemes

Taking into account stakeholders' feedback and emerging trends in domestic and international markets, appropriate changes are brought in the existing schemes including Export Finance Scheme (EFS). Below mentioned modifications were introduced during FY12.

### 6.2.1 Modifications in Long Term Financing Facility (LTFF)

- **Eligibility of Dairy Sector**

The SBP has allowed financing for plant, machinery & equipments to be used in export oriented projects in Dairy Sector<sup>1</sup> for storage, chilling, processing and packaging of Dairy Products.

- **Revisions of Financing Rates under LTFF**

Apart from satisfying the criteria of minimum export targets under the LTFF (Table 6.1), SBP has revised financing rates for all three categories: i.e., i) up to 3 years, iii) over 3 years and iii) up to 5 years & over 5 years and up to 10 years (Table 6.2).

**Table 6.1: Minimum Export Target under LTFF**

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

**Table: 6.2: Revision of Financing Rates under LTFF**

Period of financing	Rate of Refinance	PFI's Spread	End User's Rate
Up to 3y	11.00%	1.50%	12.50%
Over 3y and up to 5y	10.10%	2.50%	12.60%
Over 5y and up to 10y	9.70%	3.00%	12.70%

### 6.3 Modifications in Other Schemes

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

State Bank has extended the expiry date of the Refinance Scheme for revival of SMEs & agriculture activities in flood affected areas till November 30, 2013<sup>2</sup>. Refinance limits already sanctioned in favour of selected banks will also continue to be available up to expiry date of the scheme. They can also apply for enhancement of limits after utilization of their existing limits. Further, other interested banks/DFIs, having branches in flood affected areas, may also apply for sanctioning of fresh limits under the Scheme separately for agriculture and SMEs.

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

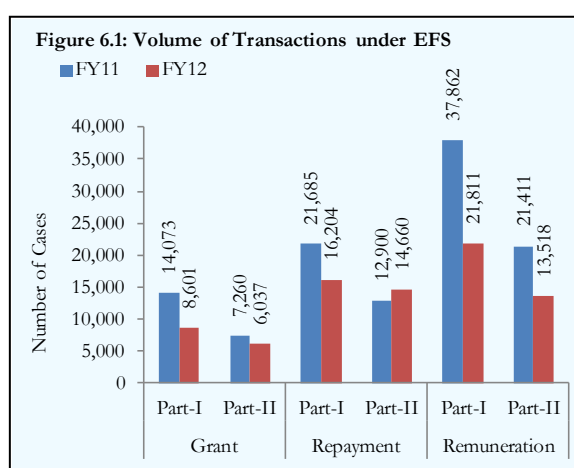
EFS (Part I & II), IERS, LTFF and other refinance schemes are implemented by the SBP BSC offices through their Refinance Scheme Units (RSUs) across the country. These RSUs also ensure timely recovery of principal and mark up in respect of these loans from commercial banks on due dates. On-site verification of EFS cases is conducted by Verification Teams of SBP BSC offices to ensure compliance of provisions/ instructions of SBP refinance schemes. All these measures help to continue with the schemes without any turbulence and to ensure that the benefit reaches the targeted group.

<sup>1</sup> IH&SMEFD Circular Letter No. 04, of March 16, 2012

<sup>2</sup> IH&SMEFD Circular Letter No. 13 of December 3, 2012

### 6.4.1 Export Finance Scheme

The Export Finance Scheme is offered under Part-I (Pre-shipment & Post-shipment) and Part-II. The SBP BSC offices process refinancing requests within 48 hours from the receipt of application duly complete in all respects from commercial banks. Resultantly, 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 field offices of BSC recover the same on due date by debit to banks' account maintained with them. This financing facility under EFS is provided to the exporters for a period of 180 days and for 300 days for hand-knotted carpets.



During FY12, a total of 80,831 cases relating to grant, repayment and remuneration (share of profit) were processed by the BSC offices under EFS (Part I&II) as compared to 115,191 cases processed during FY11 (**Table 6.3 & Figure 6.1**). This decline was seen because of the policy change where the commercial banks were abstained to process the EFS cases of such exporters who have overdue export proceeds more than 5.0 percent of the previous year's export performance.

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

Office	Grant				Repayment				Remuneration			
	FY11		FY12		FY11		FY12		FY11		FY12	
	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	1,235	1,615	778	983	3,874	6,106	4,740	7,793	6,819	10,126	2,184	3,138
Gujranwala	57	281	37	275	118	273	56	358	208	715	126	703
Hyderabad	25	-	29	-	22	-	16	-	25	-	29	-
Islamabad	11	53	9	60	39	67	33	60	23	154	33	146
Karachi	9,176	2,008	5,180	1,738	12,186	2,667	7,413	2,648	21,952	4,987	13,350	4,397
Lahore	3,115	1,015	2,215	905	4,945	1,155	3,621	1,288	8,114	2,409	5,527	2,312
Multan	15	42	5	37	20	39	6	55	38	108	9	105
Peshawar	1	42	-	48	1	42	-	47	1	112	-	124
Quetta	-	4	-	2	-	3	-	2	-	9	-	2
Rawalpindi	24	26	21	15	22	34	20	25	30	34	32	27
Sialkot	36	2,030	10	1,859	63	2,363	10	2,248	63	2,363	10	2,248
Sukkur	378	144	317	115	395	151	289	136	589	394	511	316
<b>Total</b>	<b>14,073</b>	<b>7,260</b>	<b>8,601</b>	<b>6,037</b>	<b>21,685</b>	<b>12,900</b>	<b>16,204</b>	<b>14,660</b>	<b>37,862</b>	<b>21,411</b>	<b>21,811</b>	<b>13,518</b>

A total of 16,959 fine cases were processed for violation of various clauses of export finance schemes by the offices in FY 12 compared to 20,962 fine cases processed in FY11. Despite a drop in violations cases, the refund of fine cases also witnessed a decline and 2,508 cases of refund were processed during FY 12 compared to 2,542 refund cases in the previous year (**Table 6.4**).

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

Office	Fine				Refund			
	FY11		FY12		FY11		FY12	
	Part I	Part II	Part I	Part II	Part I	Part II	Part I	Part II
Faisalabad	2,169	1,647	1,850	834	123	3	221	69
Gujranwala	189	133	113	222	56	14	39	8
Hyderabad	12	-	52	-	1	-	1	-
Islamabad	75	35	47	38	8	-	8	4
Karachi	8,628	948	6,758	1,059	1,486	190	1,365	64
Lahore	5,465	526	4,430	422	578	38	635	14
Multan	19	39	2	31	4	2	1	-
Peshawar	3	18	-	27	1	1	-	1
Quetta	-	4	-	-	-	-	-	-
Rawalpindi	55	7	53	19	3	-	5	-
Sialkot	132	783	50	826	26	8	38	23
Sukkur	66	9	75	51	-	-	11	1
<b>Total</b>	<b>16,813</b>	<b>4,149</b>	<b>13,430</b>	<b>3,529</b>	<b>2,286</b>	<b>256</b>	<b>2,324</b>	<b>184</b>

The drop in cases of violation might be a reflection of better understanding of schemes among commercial banks, however the decline in refund cases is due to the fact that IH&SMEFD, SBP to ensure timely disposal of such cases and to avoid difficulties in processing of refund of fine claims, has issued the instructions (SMEFD Circular Letter No. 10 of 2010, of June 29, 2010) 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.

#### 6.4.2 Islamic Export Refinance Scheme (IERS)

Islamic Banking Institutions (IBIs) have been playing a remarkable role on sustainable basis in financial sector. Apart from offering alternate methods of conventional banking, IBIs are proactively participating in bringing shariah compliant substitute of fresh banking interventions as well. To facilitate exporters having preferences for Islamic modes of financing, SBP launched Islamic Export Refinance Scheme (IERS) in 2002 and carried out certain shariah oriented amendments on the basis of feedback & reservations being encountered by IBIs and Islamic branches of Conventional banks.

During FY12, the Islamic banks & Islamic branches of conventional banks availed Islamic refinance facilities under the scheme from six BSC offices with a volume of 6,432 transactions regarding grant, repayment of loans and remuneration (share of profit) under IERS were processed by the field offices of BSC during FY12 as against 7,284 transactions during FY11 (Table 6.5 & Figure 6.2).

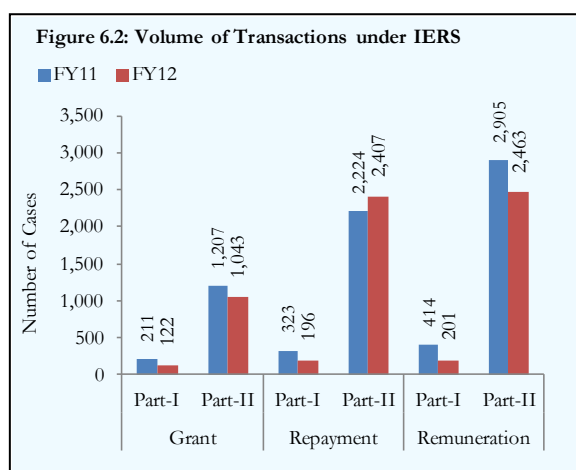


Table 6.5: Number of Transactions Executed/Processed Relating to Flows under IERS (Part I &amp; II)

Office	Grant				Repayment				Remuneration			
	FY11		FY12		FY11		FY12		FY11		FY12	
	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	5	163	20	147	27	588	33	767	45	965	54	1,120
Gujranwala	-	7	-	3	-	8	-	5	-	19	-	16
Karachi	170	577	98	573	227	1,060	154	1,142	327	1,363	135	873
Lahore	36	298	4	225	69	390	9	365	42	376	12	326
Rawalpindi	-	-	-	-	-	2	-	-	-	6	-	-
Sialkot	-	162	-	95	-	176	-	128	-	176	-	128
<b>Total</b>	<b>211</b>	<b>1,207</b>	<b>122</b>	<b>1,043</b>	<b>323</b>	<b>2,224</b>	<b>196</b>	<b>2,407</b>	<b>414</b>	<b>2,905</b>	<b>201</b>	<b>2,463</b>

During FY12, 310 fine cases were processed under Part-I & Part-II of the IERS at Faisalabad, Gujranwala, Karachi & Lahore as compared to 274 cases in FY11. Fifty six refund cases were processed in FY12 as compared to 25 cases processed in FY11 under IERS (Table 6.6).

Table 6.6: Number of Transactions Executed/ Processed Relating to Fine &amp; Refund under IERS (Part I &amp; II)

Office	Fine				Refund			
	FY11		FY12		FY11		FY12	
	Part I	Part II	Part I	Part II	Part I	Part II	Part I	Part II
Faisalabad	-	-	4	-	-	-	1	1
Gujranwala	-	-	-	2	-	-	-	1
Karachi	162	-	242	-	19	-	46	-
Lahore	70	42	62	-	6	-	7	-
<b>Total</b>	<b>232</b>	<b>42</b>	<b>308</b>	<b>2</b>	<b>25</b>	<b>-</b>	<b>54</b>	<b>2</b>

#### 6.4.3 Long Term Financing Facility

The BSC field offices processed a total of 17,937 transactions relating to grant, repayment and remuneration under LTFF during the period under review as against 14,794 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	
	FY11	FY12	FY11	FY12	FY11	FY12
Faisalabad	39	19	25	1,366	710	853
Gujranwala	2	-	2	12	11	12
Islamabad	8	5	20	26	42	69
Karachi	438	286	3,651	4,247	7,829	8,883
Lahore	43	52	674	621	1,107	1,125
Multan	21	24	26	61	126	256
Sialkot	-	-	10	10	10	10
<b>Total</b>	<b>551</b>	<b>386</b>	<b>4,408</b>	<b>6,343</b>	<b>9,835</b>	<b>11,208</b>

#### 6.4.4 Export Finance Mark up Rate Facility

To encourage the exporters of textile industry, Government of Pakistan launched 'Export Finance Mark up Rate Facility' of 2.5 percent on outstanding loans availed by the industry from commercial banks for export of eligible commodities under the SBP's Export Finance Scheme. During FY12, a total number of 7,995 cases amounting

Rs.439.2 million were processed as compared to 8,942 cases amounting to Rs.1,243.8 million last year (Table 6.8).

Office	FY11		FY12	
	No. of cases Processed	Amount (Rs. In millions)	No. of cases Processed	Amount (Rs. In millions)
Faisalabad	1,200	380.2	295	92.8
Gujranwala	4	0.3	0	0
Islamabad	2	1.5	2	1.0
Karachi	7,419	663.2	7,419	159.7
Lahore	237	171.8	237	171.8
Multan	1	0.1	1	.4
Rawalpindi	21	12.4	21	3.1
Sialkot	57	14.3	19	10.2
Sukkur	1	0.1	1	0.2
<b>Total</b>	<b>8,942</b>	<b>1,243.8</b>	<b>7,995</b>	<b>439.2</b>

#### 6.4.5 Amount outstanding under SBP Financing Schemes

An overall decreasing trend has been witnessed in respect of loans outstanding under different SBP financing schemes. A total outstanding amount Rs. 238.3 billion as of 30<sup>th</sup> June 2011 has been decreased to Rs. 225.5 billion as on 30<sup>th</sup> June 2012 (Table 6.9). Scheme wise detail in respect of outstanding amount as on end-June 2012 vis-a-vis end-June 2011 is given in Table 6.10.

Description of Transactions	FY11	FY12
1 Conventional EFS (Part I & II) & LMM	178,195	165,339
2 Islamic export Refinance Scheme	15,385	13,866
3 Long Term Financing Facility	26,602	32,736
4 Long Term Financing for Export Oriented Projects	16,174	9,654
5 Other Schemes	1,945	3,920
<b>Total</b>	<b>238,301</b>	<b>225,515</b>

Table 6.10: Office wise Detail of Amount Outstanding under SBP Concessionary Financing Scheme

Office	Rs. In million																
	Conventional EFS (Part I & II) & LMM						Islamic Export Refinance Scheme				Long Term Financing Facility		Long Term Financing for Export Oriented Projects		Other Refinance schemes		
	FY11			FY12			FY11		FY12		FY11	FY12	FY11	FY12	FY11	FY12	
	Part I	Part II	LMM	Part I	Part II	LMM	Part I	Part II	Part I	Part II							
Bahawalpur	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	9	-
Faisalabad	5,952	24,784	-	4,923	20,308	-	30	1,809	52	1,841	1,699	1,518	2,069	1,055	56	152	
Gujranwala	302	4,154	-	150	3,912	-	-	52	-	-	58	49	-	-	46	55	
Hyderabad	26	-	-	0	0	-	-	-	-	-	-	-	-	-	102	-	
Islamabad	177	2,983	-	90	3,777	-	-	-	-	-	682	735	11	11	135	611	
Karachi	19,562	58,574	3,120	16,377	46,232	3,120	2,135	8,582	963	7,907	19,228	22,687	8,773	5,708	884	758	
Lahore	13,395	31,190	-	11,883	31,520	-	89	2,344	9	2,597	3,310	5,273	2,843	1,248	12	257	
Multan	100	516	-	25	491	-	-	-	-	-	1,625	2,474	2,471	1,630	99	256	
Peshawar	-	775	-	0	834	-	-	-	-	-	-	-	7	2	5	10	
Quetta	-	100	-	0	100	-	-	-	-	-	-	-	0	-	309	992	
Rawalpindi	351	1,337	-	352	1,073	-	-	-	-	-	-	-	0	-	-	-	
Sialkot	33	10,494	-	276	19,664	-	-	344	-	497	-	-	0	-	-	-	
Sukkur	24	246	-	39	193	-	-	-	-	-	-	-	0	-	288	829	
<b>Total</b>	<b>39,922</b>	<b>135,153</b>	<b>3,120</b>	<b>34,115</b>	<b>128,104</b>	<b>3,120</b>	<b>2,254</b>	<b>13,131</b>	<b>1,024</b>	<b>12,842</b>	<b>26,602</b>	<b>32,736</b>	<b>16,174</b>	<b>9,654</b>	<b>1,945</b>	<b>3,920</b>	

The data transpires that the outstanding amount as on end -June 2012 under EFS (Part-I & II) and LMM fairly remained unchanged compared to the previous year. The outstanding amount under IERS (Part-I & II) decreased to Rs. 13.8 billion by end FY12 from Rs. 15.4 billion as at the close of FY11. The end-June outstanding amount under LTFE increased from Rs. 26.6 billion in FY11 to Rs.32.7 billion in FY12. The amount outstanding under the obsolete Long Term Financing for Export Oriented Projects decreased from Rs.16.1 billion to Rs. 9.6 billion. The outstanding amount under other refinance schemes witnessed considerable increase from Rs 1.9 billion to Rs. 3.9 billion.

#### **6.4.6 On Site Verification of Export Finance Cases**

Verification teams of the BSC offices to examine the EFS/IERS grant cases along with the requisite documents at the dealing branches of commercial banks in accordance with the schedule approved by the EFS & Credit Guarantee Division of DFSD, SBP BSC HOK. The very purpose of On-Site verification of EFS is to discipline banks, preventing mis-utilization of funds disbursed under the scheme and ensuring implementation of provisions of Export Finance Scheme in its true spirit. EFS & Credit Guarantee Division at DFSD; SBP BSC HOK supervises the entire process of verification drill being conducted by Verification Teams across Pakistan and submission of consolidated bank wise “On-site Verification reports” to IH&SMEFD, SBP.

During FY12, the verification teams of BSC offices visited 221 bank branches across the country compared to 269 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 10,650 cases under EFS Part I during FY12 as against 8,692 cases during the corresponding period leading to imposition of penalty on various lapses amounting to Rs. 8.8 million during FY12 compared to Rs. 6.1 million last year. The teams examined 4,542 cases and recovered penalty amounting to Rs. 1.6 million on account of various irregularities under Part-II as compared to 5,115 cases with penalties of Rs. 2.7 million in the previous year. Six hundred twelve cases of IERS were verified during current year with fines amounting Rs. 289,900 as against 374 cases of FY11 with fines of Rs. 344,531. Though the number of cases verified has reduced during the year, however the teams invariably ensured verification of 70 % refinance granted under EFS (**Table 6.11 & 6.12**). Thirty Six (36) consolidated bank-wise EFS verification reports were prepared and compiled by the EFS & Credit Guarantee Division, 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, 2012.

#### **6.5 Awareness/Capacity Building Programs**

During the period under review, capacity building programs were arranged for employees of SBP BSC about EFS schemes at NIBAF Islamabad and Karachi and about 125 employees were trained. Two awareness programs were arranged about Refinance Schemes of SBP in coordination with IH&SMEFD and twelve programs were arranged at various filed offices across the country about new schemes launched by IH&SMEFD. Representatives from IH&SMEFD gave presentations. Refinance schemes for revival of SMEs and agricultural activities were focused during these awareness programs.



Table 6.11: 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)	
	FY11	FY12	FY11	FY12	FY11	FY12	FY11	FY12	FY11	FY12	FY11	FY12	FY11	FY12
Paisalabad	51	35	1,014	789	676.4	307.7	1,605	1,352	1,630.4	943.8	133	176	47.4	22.3
Gujranwala	37	28	61	44	1.8	0.2	216	165	284.3	0.051	9	5	0	0.8
Hyderabad	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Islamabad	12	11	75	15	0.2	0	69	39	5.9	0.3	0	0	0	0
Karachi	79	78	5,310	7,778	2,582.1	8,532.6	1,145	1,595	650.1	549.3	3	7	4.0	257.9
Lahore	33	30	2,020	1,658	2,813.4	7.1	562	581	35.5	0.1	159	301	250.9	0.6
Multan	11	4	5	0	0	0	23	4	28.2	2.8	0	0	0	0
Peshawar	10	7	2	0	0.1	0	45	23	42.1	0.9	47	0	42.2	0
Quetta	2	2	0	0	0	0	4	3	5.7	0	0	0	0	0
Rawalpindi	8	12	26	37	0	0.9	34	41	0.5	27.6	0	4	0	7.0
Sialkot	22	10	15	25	1.0	1.6	1,325	638	19.9	137.4	23	119	0	1.3
Sukkur	4	4	164	304	46.2	45.8	87	101	0	20.0	0	0	0	0
<b>Total</b>	<b>269</b>	<b>221</b>	<b>8,692</b>	<b>10,650</b>	<b>6,121.2</b>	<b>8,895.9</b>	<b>5,115</b>	<b>4,542</b>	<b>2,702.6</b>	<b>1,682.2</b>	<b>374</b>	<b>612</b>	<b>344.5</b>	<b>289.9</b>

The aim of these training programs and awareness sessions was to sensitize the stake-holders about the salient features of schemes. The programs were also instrumental in building the capacity of SBPBSC and Commercial Banks' staff regarding processing and documentation of the cases.

## 6.6 Future Outlook

As a part of its development plan for FY13, Export Refinance Unit of DFSU is focusing upon:

- i) Devising Standard Operating Procedures for on-site verification of export refinance cases with a view to enhance efficiency of verification teams and the quality of verification;
- ii) Launching a series of training programs in coordination with Institute of Bankers Pakistan (IBP) at its all local centres to improve understanding level of officials of commercial banks with respect to properly observing the required formalities attached to various refinance schemes.

Table 6.12: Summary Showing the Verification Data (Fine in thousand Rupees, Cases in Numbers)

Description	FY11	FY12
<b>Bank Branches Visited</b>	<b>269</b>	<b>221</b>
<b>Part I</b>		
Cases Verified	8,692	10,650
Fine Recovered	6,121.2	8,865.9
<b>Part-II</b>		
Cases Verified	5,115	4,542
Fine Recovered	2,702.5	1,682.2
<b>IERS-II</b>		
Cases Verified	374	612
Fine Recovered	344.5	289.9
<b>Total</b>		
Cases Verified	14,181	15,804
Fine Recovered	9,168.20	10,838