

3 EXPORT FINANCE SCHEME

3.1 Overview

The State Bank of Pakistan (SBP) is providing credit facilities to the exporters through commercial banks under its Export Finance Scheme (EFS) Part-I & II, Islamic Export Refinance Scheme (IERS) and Scheme for Long Term Financing for the Export Oriented Projects (LTF-EOP). The EFS is primarily a working capital facility of short term nature for a maximum period of 180 days. The IERS is a Musharaka-based refinance scheme introduced by the SBP to fulfill the refinancing needs of newly established Islamic commercial banks. The LTF-EOP was introduced in 2004 which allow eligible financial institutions to provide long term financing facility to exporters on attractive terms and conditions for import of plant and machinery to bring improvements in the quality of products. While SBP formulates the policy framework, all operational work of these credit schemes is carried out by the SBP-BSC through its field offices. Under the EFS, the field offices of SBP-BSC provide refinance to commercial banks within 48 hours of the receipt of their bonafide claims in respect of the finance provided by them to their exporters. This financing facility is provided to exporters through commercial banks for a period of 180 days. The commercial banks are under obligation to repay the loan amount within the specified period and if they fail to do so the field offices recover the loan amount on due date by debit to their account maintained with the respective office.

SBP-BSC is also entrusted with the work of on-site verification of export refinance cases granted under part-I of EFS handled by the commercial bank branches. For this purpose a Central EFS Verification Unit has been established at SBP-BSC Head Office, Karachi. The basic objective of this unit is to streamline the process of on-site verification of export refinance cases, ensure uniformity in verification process at all field offices of BSC and preparation of a report on findings of on-site verification of each bank annually. This unit also provides guidance to officers of the field offices who are assigned the job of on-site verification of EFS cases granted under part-I of the scheme. On completion of the verification process in respect of a particular bank, the concerned field offices submit a verification report on findings of the team in a prescribed format. These reports are consolidated bank-wise by Central EFS Verification Unit for onward submission to SBP for taking necessary action wherever required.

3.2 Role of SBP-BSC in Credit Disbursement under Export Finance Scheme

As an operational arm of SBP, the role of SBP-BSC is to provide refinance to the banks as per rules and regulations formulated by SBP for the scheme. To this end, BSC has established Export Refinance Units in most of the field offices to handle the EFS cases. SBP-BSC has performed this function satisfactorily during 2006-07. The details are as follows:

3.2.1 Conventional Export Finance Scheme (Part I & II)

Export Finance Scheme is in operation since 1973 and remained a major source of bank credit to exporters over the years. The scheme has witnessed many changes since its introduction. However, the basic focus of the scheme has always been to meet the financing requirements of exporters. The facility under the scheme is continued to be available to small, medium and large size enterprises. An exporter can avail the facility under both parts of the scheme provided the facility availed under one part is not taken in other part. The financing facilities under the scheme are available for eligible commodities for a period of 180 days. The names of ineligible commodities for export finance are given in the negative list of items. Finance from commercial banks under Part-I of the scheme is available to the exporters to the extent of 100 percent of the value of a firm export order / contract or letter of credit both at pre-shipment and post-shipment stages. The exporter after establishment of a letter of credit or on receipt of firm export order approaches his bank for availing the financing facility under EFS indicating his financial needs. The commercial bank after providing finance to the exporter become eligible to avail refinance from SBP-BSC field offices in the area of their jurisdiction as per procedure laid down in the scheme. The total amount of financing extended by any bank against a firm export order or letter of credit should not exceed the total amount of the firm export order / contract or letter of credit. In case of non-shipment or short shipment of goods the exporters have to pay fine on the defaulting amount as per prescribed rate. However, in view of the circumstances particular to the leather garments industry, the exporters of leather garments have been provided relief in respect of the refinance availed by them during FY 2006-07. Under this relief package, the exporters of leather garments are required to provide evidence of shipment of eligible goods to the extent of 75 percent of the refinance loans obtained by them during 2006-07 instead of 100 percent of the loan amount. Similarly under Part II of the scheme, the required performance for financing facilities availed by the exporters of leather garments during 2006-07 has been reduced to 1.5 times instead of the existing performance requirements of 2 times.

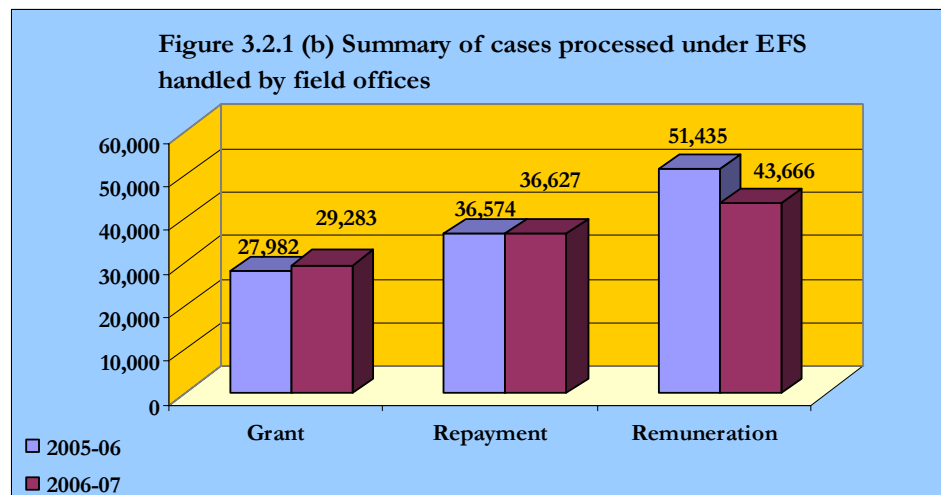
The exporters are also eligible to avail post-shipment finance against shipments already effected up to the period the export proceeds are not realized or up to a maximum period of 180 days from the date of shipment which ever occurred earlier. It is obligatory for the exporters to provide shipping documents against each case to his bank within the stipulated time, failing which fine is levied as prescribed under the scheme for non-

shipment. In case the exporters are unable to export goods as given in the contract or a letter of credit against which the loan was availed due to one reason or the other, they are allowed to substitute the old contract or letter of credit with a new contract or letter of credit and export the same or different eligible goods to the same or other buyers provided they have not availed finance against such new contract or letter of credit. The banks are required to repay the refinance on realization of proceeds in full or part thereof as the case may be, within three working days from such realization. The amount of refinance is to be repaid by the bank from its own sources on expiry of the maturity period of the loan failing which the concerned field office of SBP-BSC recovers the same on due date by debit to their account maintained with them. In case the exporter has made the repayment to the bank before expiry of the loan, the same is to be repaid by the bank to respective field office of BSC within three working days from the repayment made by the exporter. In case of default in repayment, no grace period is allowed and fine for the entire period for which the repayment was delayed, is charged at the prescribed rate. Under Part II of the scheme, an amount equal to 1/2 of the proceeds realized during the previous year, has been continued to be allowed on revolving basis against such realization reported on EE statement duly verified by the Foreign Exchange Operations Department of BSC. The exporters are under obligation to realize export proceeds equal to 2 times during the relevant financial year duly reflected in EF statement prescribed for the purpose except in case of leather garments where the existing requirement of 2 times has been reduced to 1.5 times in respect of the financing facility availed by them during the year 2006-07. In case of failure to realize matching export proceeds the exporters are required to pay fine at prescribed rate for the non-performance.

The total number of cases granted, amount repaid and remuneration (share of profit) processed under Part I and II of the scheme by the field offices of SBP-BSC were 109,576 during 2006-07 as compared to 115,991 cases processed during 2005-06 [Table 3.2.1 (b)]. The decrease in total number of transactions under conventional portfolio of EFS is partly attributed to decline in transactions relating to remuneration which fell to 43,666 during 2006-07 as compared to 51,435 transactions during 2005-06 as also to popularity of IERS among the exporters during 2006-07. The rate of return on export refinance under conventional EFS (Part I & II) remained unchanged at 7.5 percent during 2006-07, the same as it was in the preceding year.

Table 3.2.1 (a) Cases processed under Export Finance Scheme												
Office	No. of transactions executed / processed relating to flows under EFS						No. of transactions involving				Cases processed under procedure for refund of fine	
	Grant		Repayment		Remuneration (Share of Profit)		Fine		Refund			
	2005-06	2006-07	2005-06	2006-07	2005-06	2006-07	2005-06	2006-07	2005-06	2006-07	2005-06	2006-07
Bahawalpur	-	-	-	2	4	4	-	-	-	-	-	-
Faisalabad	2,851	3,288	2,910	3,423	6,153	9,260	1,534	2,050	259	262	1	4
Gujranwala	477	530	582	584	1,428	1,485	193	179	30	31	-	-
Hyderabad	32	25	29	28	74	67	29	29	11	9	-	-
Islamabad	167	138	223	182	180	138	73	89	14	17	-	1
Karachi	16,048	16,598	20,051	19,297	27,845	15,878	6,932	9,391	943	1,317	4	3
Lahore	5,172	5,233	9,574	9,633	12,270	13,049	4,576	6,611	859	730	8	2
Multan	36	45	51	42	127	110	28	33	1	-	-	-
Muzaffarabad	2	2	2	2	4	4	1	-	-	-	-	-
Peshawar	59	59	50	56	155	113	37	19	-	-	-	-
Quetta	6	9	6	8	-	-	-	2	-	-	-	-
Rawalpindi	83	73	61	75	126	149	103	67	45	39	45	39
Sialkot	2,681	2,703	2,667	2,715	2,619	2,689	412	530	12	29	2	1
Sukkur	368	580	368	580	450	720	18	66	2	9	-	-
Total	27,982	29,283	36,574	36,627	51,435	43,666	13,936	19,066	2176	2,443	60	50

Table 3.2.1 (b) Summary of cases processed under EFS handled by field offices			
S#	Description of transaction	2005-06	2006-07
1	Grant	27,982	29,283
2	Repayment	36,574	36,627
3	Remuneration	51,435	43,666
Total		115,991	109,576



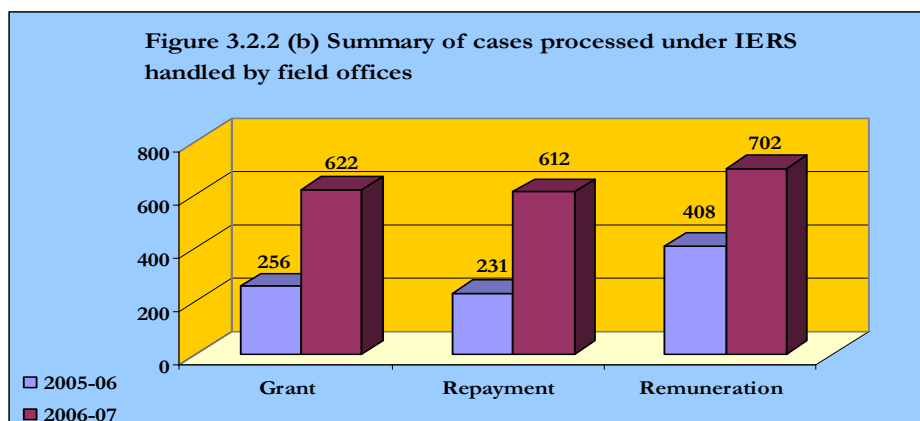
3.2.2 Islamic Export Refinance Scheme

The emergence of specialized Islamic Banking Institutions has been instrumental in promoting the Islamic Export Refinance Scheme (IERS). The scheme provided an opportunity to Islamic banks to avail refinancing facility from the field offices of SBP-BSC under IERS against the finance provided by them to the exporters for export of eligible commodities. Besides the Islamic banks, the scheme was also utilized by the designated stand-alone Islamic banking branches of conventional commercial banks for providing Islamic banking products and services. In order to ensure smooth flow of credit to the genuine exporters under IERS, a mechanism already put in place for EFS, was being followed at all field offices.

The financing under IERS was initially started from SBP-BSC Karachi office in 2004. The number of cases received under IERS at BSC offices are increasing gradually. During FY07, eight field offices of SBP-BSC have extended the refinancing facility pertaining to grant and repayment under IERS as compared to six offices in the preceding year. The total number of transactions regarding grant, repayment of loan and remuneration (share of profit) under IERS processed by these field offices was 1,936 during the reporting period as against 895 transactions executed / processed during the preceding year [Table 3.2.2 (b)]. This showed an increase of around 116 percent during the current financial year.

Table 3.2.2 (a) Cases processed under Islamic Export Refinance Scheme (IERS)										
Office	No. of transactions executed/processed relating to flows under IERS						No. of transactions involving			
	Grant		Repayment		Remuneration (Share of Profit)		Fine		Refund	
	2005-06	2006-07	2005-06	2006-07	2005-06	2006-07	2005-06	2006-07	2005-06	2006-07
Faisalabad	67	114	60	85	189	246	7	30	2	7
Gujranwala	3	7	1	8	1	8	-	-	-	-
Islamabad	-	11	-	4	-	4	-	-	-	-
Karachi	131	329	109	346	156	165	13	65	-	1
Lahore	18	116	35	137	43	271	8	-	-	-
Multan	5	-	8	2	19	2	16	4	-	-
Rawalpindi	-	3	-	-	-	6	-	-	-	-
Sialkot	32	42	18	30	-	-	-	1	-	-
Total	256	622	231	612	408	702	44	100	2	8

Table 3.2.2 (b) Summary of cases processed under IERS handled by field offices			
S#	Description of transaction	2005-06	2006-07
1	Grant	256	622
2	Repayment	231	612
3	Remuneration	408	702
	Total	895	1,936



3.2.3 Scheme for Long Term Financing for Export Oriented Projects

Scheme for Long Term Financing for Export Oriented Projects (LTF-EOP) has been formulated for the eligible financial institutions to provide financing facilities to the export oriented units meeting the financing criteria on attractive terms and conditions for import of machinery, plant, equipments and accessories etc. This initiative was

taken to augment the present efforts of the commercial banks in extending the credit to the manufacturing sector and to help the exporters in import of machinery, up-grading the existing technology and financing facilities availed at competitive rates. Under this facility, refinance is also provided to commercial banks by the field offices of BSC located at different parts of the country since introduction of the scheme in 2004. The refinancing facilities against LTF-EOP are extended to the commercial banks on service charges basis. The rate in LTF-EOP remained the same as applicable in the preceding year, which is given in Figure 3.2.3.

Figure 3.2.3 Rate of refinancing to banks/DFIs under LTF-EOP

Tenure	Rate
For borrowers requiring financing up to 2 years	4.00%p.a.
For borrowers requiring financing over two years but up to 3 years.	4.00%p.a.
For borrowers requiring financing for period over three years and up to maximum period prescribed under the scheme i.e. 7-1/2 years	5.00%p.a.

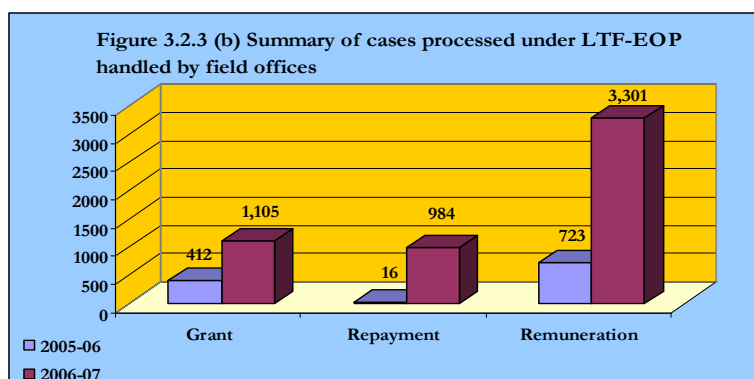
During the period under review, seven field offices of SBP-BSC extended the refinancing facility under LTF-EOP as compared to five offices in the previous year. The volume of work relating to LTF-EOP handled by BSC offices has increased considerably during FY07 as compared to preceding year. The total number of transactions pertaining to grant and repayment of loan and remuneration (share of profit) processed under LTF-EOP was 5,390 during FY07 as against 1,151 transactions during the preceding year [Table 3.2.3 (a)] which showed a substantial increase of 368 percent over the previous year.

Table 3.2.3 (a) Cases processed under Scheme for Long Term Financing for Export Oriented Projects (LTF-EOP)

Office	No. of transactions executed / processed relating to flows under LTF-EOP						No. of transactions involving	
	Grant		Repayment		Remuneration		Fine	
	2005-06	2006-07	2005-06	2006-07	2005-06	2006-07	2005-06	2006-07
Faisalabad	8	147	-	174	1	427	-	-
Islamabad	-	1	-	1	-	-	-	-
Karachi	354	590	16	423	670	2,314	-	-
Lahore	43	250	-	283	43	293	-	1
Multan	6	103	-	74	8	212	-	1
Peshawar	1	3	-	2	1	12	-	-
Rawalpindi	-	11	-	27	-	43	-	-
Total	412	1,105	16	984	723	3,301	-	2

Table 3.2.3 (b) Summary of cases processed under LTF-EOP handled by field offices

S#	Description of transaction	2005-06	2006-07
1	Grant	412	1,105
2	Repayment	16	984
3	Remuneration	723	3,301
	Total	1,151	5,390



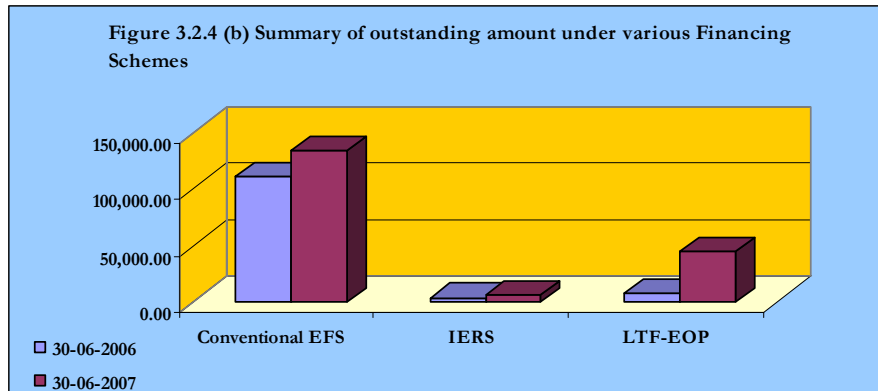
3.2.4 Amount Outstanding under Financing Schemes

The outstanding amount under different financing facilities launched by SBP has increased considerably during the current financial year. The amount of loan outstanding under EFS was Rs.133,629 million as on 30th June 2007 as against Rs.109,903 million on the corresponding date last year. The outstanding amount under IERS stood at Rs.5,906 million as on 30th June 2007 as compared to Rs.3,174 million on 30th June 2006. The outstanding amount under LTF-EOP sharply increased to Rs.44,035 million on 30th June 2007 as against Rs.6,672 million on the corresponding period last year. The sharp increase in the amount is due to allowing one time opportunity to all those exporters who had already imported machinery, as per eligibility criteria of scheme, on or after 1st January 2003. These exporters were allowed to swap their outstanding liability of loan, eligible under the scheme, with LTF-EOP scheme as terms and conditions and rate of

markup are very attractive. This was done to help exporters to bail them out from crisis. The aggregate amount of loans outstanding in all the three portfolios stood at Rs.183,570 million at end June 2007 as compared to Rs.119,748 million at end June 2006 showing a substantial increase of 53.3 percent over preceding year.[Table 3.2.4 (b)].

Table 3.2.4 (a) Amount outstanding under various Financing Schemes <i>(Rupees in million)</i>						
Field Offices	Conventional EFS		IERS		LTF-EOP	
	30-06-2006	30-06-2007	30-06-2006	30-06-2007	30-06-2006	30-06-2007
Bahawalpur	8.7	7.7	-	-	-	-
Faisalabad	20,229.6	25,886.9	949.5	1,815.3	402.8	6,056.4
Gujranwala	3,115.8	4,270.4	4.0	1.4	-	-
Hyderabad	33.7	29.6	-	-	-	-
Islamabad	364.8	476.5	-	90.0	-	75.5
Karachi	55,006.9	66,496.3	1,693.1	3,101.4	5,107.2	20,166.2
Lahore	20,660.7	23,787.6	175.5	641.4	938.6	13,504.4
Multan	662.6	1,102.9	213.2	-	210.7	4,024.5
Muzaffarabad	3.3	2.9	-	-	-	-
Peshawar	499.3	661.7	-	-	12.4	88.1
Quetta	12.5	19.0	-	-	-	-
Rawalpindi	89.9	101.9	-	100.0	-	119.5
Sialkot	8,980.9	10,544.4	138.4	156.9	-	-
Sukkur	233.9	241.2	-	-	-	-
Total	109,902.6	133,629.0	3,173.7	5,906.4	6,671.7	44,034.6

Table 3.2.4 (b) Summary of outstanding amount under various Financing Schemes <i>(Rupees in million)</i>			
S#	Scheme	30-06-2006	30-06-2007
1	Conventional EFS	109,902.6	133,629.0
2	Islamic Export Refinance Scheme (IERS)	3,173.7	5,906.4
3	Scheme for Long Term Financing for Export Oriented Projects (LTF-EOP)	6,671.6	44,034.6
Total		119,747.9	183,570.0



3.2.5 On-site Verification of Export Finance Cases

Under the rules of Export Finance Scheme (EFS), the offices of SBP-BSC are required to carry out on-site verification of Export Refinance cases granted under Part-I of the scheme in their respective area of jurisdiction. The purpose of this exercise is to verify that the funds availed by the commercial banks from SBP have been used for the purpose they were disbursed to them and banks have observed the terms and conditions laid down in the scheme while extending the loan. The field offices of SBP-BSC are required to carry out verification of all categories of export refinance cases i.e., small, medium, and large loans. For this purpose, Chief Managers of the field offices have constituted verification teams at their centres. The officers who not only possess sufficient knowledge of Export Finance Scheme but also have working experience in export refinance division are assigned the job of conducting on-site verification of EFS cases.

The Central EFS Verification Unit established at SBP-BSC Head Office Karachi is responsible to maintain uniformity in verification process at all field offices besides providing necessary guidance to members of the verification teams as and when needed. The unit carry out detailed scrutiny of the verification reports sent by SBP-BSC offices and calls for additional information / clarification (when necessary) on findings / observations of verification teams. The EFS Verification Unit prepares a consolidated report regarding on-site verification of export refinance cases on each commercial bank which availed refinance facility for onward submission to Micro Finance Department of State Bank of Pakistan. Due to extensive efforts of EFS Unit, the on-site verification process has now been streamlined and carried out in accordance with the schedule provided to field offices. As a result of concerted efforts and close liaison with field offices, the verification of cases pertaining to the monitoring period 2004-05 has been completed and 32 on-site verification reports were prepared and submitted to the Micro Finance Department SBP during the current financial year.

During FY07, the verification of 16,323 EFS cases handled by 258 branches of the commercial banks has been completed. A total number of 51 consolidated on-site verification reports in respect of those commercial banks which availed refinance facility from the BSC offices have been prepared in the light of observations of the verification teams and sent to SBP up to 30th June 2007 for further action in the matter. During FY07, fine amounting to Rs.7.7 million has been recovered from the commercial banks as proposed by the verification teams of different field offices on account of irregularities detected in EFS cases during the course of verification [Table 3.2.5 (a & b)]. On-site verification is an ongoing process, as such, there are still a number of reports in the pipeline on other commercial banks which are being compiled and consolidated on the basis of information received from BSC field offices before the end of the reporting year and will soon be ready for submission to the concerned quarters.

Table 3.2.5 (a) On-site verification of EFS cases during FY07					
S #	Name of Bank	Reports pertains to the period	No. of Bank Branches	No. of Cases Verified	Fine Recovered
1	ABN Amro Bank	2004-05	02	87	20,830
		2005-06	02	31	20,635
2	Allied Bank Limited	2004-05	08	256	211,709
3	Askari Commercial Bank	2004-05	23	2,057	479,954
4	Al Baraka Islamic Bank	2004-05	04	193	387,606
5	Bank Alfalah Limited	2004-05	14	1,141	125,575
6	Bank AL Habib Limited	2004-05	09	1,129	29,800
7	Citi Bank N. A.	2004-05	02	77	78,670
8	Crescent Commercial Bank Ltd	2004-05	02	18	209,058
9	Dawood Bank Ltd (Atlas Bank)	2004-05	01	04	-
10	Deutsche Bank A. G	2004-05	01	10	-
11	Faysal Bank Limited	2004-05	09	613	462,808
		2005-06	07	254	13,876
12	Habib Bank AG Zurich	2004-05	08	764	272,595
13	Habib Bank Limited	2004-05	19	1,568	637,425
14	Hong Kong & Shanghai Banking Corp.	2004-05	01	01	-
15	Industrial Development Bank of Pakistan	2004-05	01	11	61,400
16	KASB Bank Limited	2004-05	04	39	200
17	MCB Bank Limited	2004-05	16	614	171,615
18	Meezan Bank Limited	2004-05	02	24	16,884
19	Metropolitan Bank Limited	2004-05	08	1,635	1,168,981
20	my bank Limited	2004-05	11	128	102,530
21	National Bank of Pakistan	2004-05	06	126	286,448
22	NIB Bank Limited	2004-05	03	660	2,379
23	Oman International Bank Limited	2004-05	01	01	-
24	PICIC Commercial Bank Limited	2004-05	12	281	275,217
25	Prime Commercial Bank Limited	2004-05	12	734	20,435
26	Saudi Pak Commercial Bank	2004-05	05	174	68,892
27	Soneri Bank Limited	2004-05	11	882	358,809
		2005-06	12	612	339,718
28	Standard Chartered Bank	2004-05	01	03	400
29	The Bank of Khyber	2004-05	03	86	-
30	The Bank of Punjab	2004-05	04	141	187,091
		2005-06	05	206	228,091
31	Union Bank Limited (Now Standard Chartered Bank)	2004-05	05	603	488,153
32	United Bank Limited	2004-05	15	668	430,693
		2005-06	09	492	542,693
Total			258	16,323	7,701,170

Table 3.2.5 (b) Summary of On-site verification process carried out by SBP-BSC field offices			
S #	Description of verification	2005-06	2006-07
1	No. of Commercial Banks	19	32
2	No. of Banks Branches	156	258
3	No. of Cases Verified	11,297	16,323
4	Fine Recovered	4,243,883	7,701,170

3.2.6 Recent Developments in EFS – Modifications in the refinancing limits and resource sharing arrangements for EFS

Under the revised scheme, the export finance limits of banks for the year FY08 shall be fixed at the level of outstanding amounts as on 30th June, 2007. For ensuring phased transformation of export financing regime, SBP shall allow only 70 percent refinance against such limits based on actual 100 percent drawdown of export finance by the exporters with their respective banks. The balance of 30 percent shall be funded by the banks out of their own resources to ensure deeper involvement in this vital area of support to exporters and export oriented undertakings. While the exporters will continue to get the financing from commercial banks for 100 percent of their entitlement to borrow under the existing scheme, the commercial banks shall be provided refinance to the extent of only 70 percent of the amount disbursed by the banks to the exporters. Banks shall continue to avail 70 percent refinance from SBP-BSC offices as per the existing procedures. The banks will be required to ensure that their total outstanding refinance from SBP as of 30th June, 2007 is reduced steadily by 30 percent latest by 30th June, 2008. During the transition period as an interim support, the amount of export finance provided by banks from their own sources would be eligible for deduction from their demand liabilities for the purpose of determining their Cash Reserve Requirement. The other terms and conditions of EFS would remain the same. Similarly LTF-EOP has also been revamped and a draft of the scheme has already been circulated for stakeholders' comments and will be finalized in due course.