1. DEFINITIONS.. click here

2 THE SCHEME .... click here

3 INCENTIVES .... click here

4 FIXATION OF LIMIT FOR BANKS .... click here

5 RATE OF FINANCE / REFINANCE.. click here

6 FINES FOR DEFAULTS.. click here

7 VERIFICATION OF EFS CASES.. click here

8 PERIOD OF PRESERVATION .... click here

9 RETURNS SUBMITTED BY BANKS.. click here

10 RETURNS SUBMITTED BY SBP BSC (BANK) OFFICES .... click here

11 GENERAL GUIDANCE & IMPORTANT NOTES .... click here

12 PART A - TRADE FINANCE FOR EXPORTS.. click here

12.2 ENTITLEMENT TO BORROW .... click here

12.3 PERFORMANCE REQUIREMENTS.. click here

12.4 ROLL OVER OF LIMITS OF EXPORTERS.. click here

12.5 TRANSITION PERIOD ARRANGEMENTS.. click here

13 PART- B TRANSACTION BASED FACILITIES.. click here

13.2 TRADE FINANCE FOR INDIRECT EXPORTERS .... click here

13.3 TRADE FINANCE FOR GOODS SUPPLIED AGAINST INTERNATIONAL TENDERS. .... click here

14 PART-C - MEDIUM TO LONG TERM FINANCE FOR EXPORTS.. click here

15 ANNEXURES .... click here

1. Definitions

1.1. **Bank** means a banking company as defined in the Banking Companies Ordinance 1962.

1.2. **Direct Exporter (DE)** means a commercial exporter who manufactures and exports or a trading company who procures and exports.

1.3. **Existing Exporter** means an exporter who has been availing facilities under EFS from any commercial bank for a period of more than one year.

1.4. **Indirect Exporter (IDE)** means a manufacturer or suppliers of goods or materials which is to be used as inputs for exports by DE.

1.5. **Locally Manufactured Machinery (LMM)** includes only those plants, machinery, equipment, transport equipment, cargo vessels, ships, fixtures, fittings and accessories, which are to be used for industrial applications and undergo processing in Pakistan.

1.6. **Long Term Finance Scheme for Export Oriented Projects (LTF-EOP)** refers to SBP's scheme issued vide BPD Circular No. 14 of 2004.

1.7. **New & Emerging Exporter (NEE)** under the Scheme means; a) either a new direct exporter who has not previously exported products, or b) any existing direct exporter who has not been required to submit the ER-TF□ statement for a period of two consecutive calendar years.

1.8. **Small or Medium Sized Enterprise (SME)** as defined in the Prudential Regulations for SMEs. However, an SME exporter is defined as an enterprise having exports of up to USD 2.5 million or equivalent in a calendar year.

1.9. **The Scheme** means the Export Finance Scheme 2005 or EFS 2005.

1.10. **Approved/ Participating Financial Institution (PFI)** means and includes banks and any other financial institution approved by the SBP for providing financial facilities under any part of this Scheme.

^ Top

As defined in Para 12.2 below of the Scheme

Export Finance Scheme 2005

The Scheme

2.1 The Export Finance Scheme of the State Bank of Pakistan has been in operation since 1973 and has been a major source of banks' credit to the exporters. Over the years it has witnessed various modifications to simplify its procedures for the exporters and the banks. With the same objective the Scheme has been revised to further reduce the documentary requirements under the EFS as also to rationalize the procedure for availing financing facility by the exporters of Locally Manufactured Machinery and such machinery and goods supplied a) locally against international tenders and b) to international agencies based in Pakistan for undertaking their relief activities in Pakistan or elsewhere in the region, provided the payments are received in foreign currency. The new scheme shall operate in three parts;

2.1.1 **Part A –** Performance based facility for Trade Finance of Exports – the distinction between Part-I and Part-II of the existing Export Finance Scheme shall cease to exist, The facility shall now be offered under Part-A of the new scheme, on pattern similar to Part II of the existing scheme. The facility shall continue to be available for 180 days, to existing and New & Emerging Exporters (NEE) based on the entitlement calculated in accordance with their performance as prescribed under the scheme and the limit sanctioned by the banks to the NEE. The operational details of the **Islamic Export Refinance Scheme** (**IERS)** shall also be changed in line with the modifications in respect of Part-A of the new Export Finance Scheme, i.e., the distinction of Part I & Part II shall cease to exist for IERS also. Similarly, the documentation requirements shall also be modified accordingly.

2.1.2 **Part B** – offers transaction based facilities for i) Indirect Exporters (IDE), and for ii) local supplies against International Contracts etc. The facility shall be available for 120 days for IDE, whereas for the local supplies the facility shall be available for up to a maximum of 3 years.

2.1.3 **Part C** - transaction based facilities for the Term Finance of Exports in respect of Locally Manufactured Machinery (LMM) items as covered under the definition of LMM under the Scheme.

2.2 The markup charged under the scheme will be linked to weighted average yields of T-Bills and PIBs as specified in the Scheme.

2.3 The items mentioned in the Negative List of the existing EFS (along with any amendments made from time to time) shall continue to be ineligible for financing under the Scheme. Copy of the same is attached at Annexure 1

2.4 Advance Payments shall continue to remain ineligible for finance under all parts of the Scheme, except where otherwise permitted.

2.5 For availing finance facility under the Scheme, exporters are required to submit an undertaking that the export proceeds realized shall be routed through the disbursing bank (bank from which EFS was availed). In the event that export proceeds are realized through any other bank the exporter shall obtain and submit NOC from the disbursing bank, for the same, at the time of sending documents from a bank other than the disbursing bank.

2.6 The Scheme operates on reimbursement basis and the banks are not allowed to charge a rate higher than that prescribed by the State Bank on their financing under the Scheme

2.7 The Export Finance Scheme in respect of Consultancy Services and export of Gold Jewelry announced vide BSD Circular No. 41 dated 30th October, 2001 and BPD Circular No.12 dated 7th April, 2003 respectively shall continue to remain intact as at present.

2.8 Similarly instructions regarding financing facilities for goods exported from the Export Processing Zones and participation in international exhibitions/fairs, circulated vide BCD Circular No. 26, dated 4th August, 1982 and Circular No. 21 dated 5th September, 1983 read with Circular No. 39 dated 10th October 1985, shall continue to remain intact as at present

^ Top

Incentives

.1 Under the Prudential Regulations for Corporate & Commercial Banks2, Direct Exporters are exempt from certain restrictions, as under :

3.1.1 **Per Party Limit:** In determining exposure by banks to their borrowers, pre / post shipment credit provided to finance export of goods covered by letters of credit / firm export orders are not included in the definition of exposure for the purpose of Prudential Regulations R-1, only while calculating per party/per group limit of the

1 These Circulars are attached at the end of the Scheme for reference.

2 The financing to SME exporters shall be determined keeping in view the requirements of the Prudential Regulations for the SMEs. However, the definition of SME exporters shall be as under this scheme.

lending banks/DFIs.

3.1.2 **Clean Exposure:** No Banks / DFIs shall provide unsecured / clean financing facility, in any form, of a sum exceeding Rs 500,000/- (Rupees five hundred thousand only) to any one person under Prudential Regulation R-4. The limit of clean facilities will exclude a) facilities provided to finance the export of commodities eligible under **Export Finance Scheme3** and b) financing covered by the guarantee of Pakistan Export Finance Guarantee Agency.

3.1.3 **Banks' Per Party Exposure:** Export finance is excluded from calculation of the maximum exposure as allowable under Prudential Regulation R-5, according to which banks' exposure to any one borrower may not exceed 10 times of its capital and reserves (free of losses) as disclosed in Audited Accounts.

3.1.4 **Basic Fact Sheet:** The export finance involving an amount of less than Rs. 10 million is exempt from requirements of obtaining copy of borrower's accounts and Borrower's basic fact sheet.

3.2 The **Pakistan Export Finance Guarantee Agency (PEFG),** for export promotion, especially amongst small, medium and emerging Direct and Indirect exporters has been set up in the private sector to enable them access to credit facilities. The cover obtained by the exporters from the PEFG agency will substitute for the collateral requirements of banks and will hedge against the financing risks of commercial banks against manufacturing, non-performance, non-delivery risk and non-payment by the exporters.

^ Top

Fixation of Limit for Banks

4.1 The State Bank shall provide refinancing facilities to the financing banks on service charge basis, under section 22 read with section 17 (2) (d) of the SBP Act, 1956. For the purpose of Part - A and in respect of cases under Part - B and Part -C, involving no deferred payment, the State Bank shall sanction yearly limits to each bank. However, for cases involving deferred payment of more than one year under Part - B and Part - C of the Scheme the State Bank shall grant limit on case-to-case basis at the time of giving its prior approval.

4.2 The quantum of yearly limit as also limit sanctioned on case to case basis, to each bank shall be determined by the State Bank keeping in view, but not limited to a) equity (for Domestic Banks) and assigned capital for branches of Foreign Banks operating in

3 It is expected that banks' decisions regarding clean advances/disbursals should be based on their relationship with the borrower as well as the borrowers' past performance/ behavior.

Pakistan; b) performance of the bank as a Banking Company c) status of export proceeds overdue, in respect of total exports financed by the bank including those financed under EFS routed through the bank; d) quality of the export credit and e) appetite for requirements of export credit. Commercial Banks shall be required to apprise State Bank about their requirements for annual EFS limits by April 30th each year. Such requests should invariably be supported with the most recent audited financial statements of each bank. State Bank will, in its sole discretion fix the EFS limit for each bank keeping in view the over all scenario.

4.3 The annual limit fixed for each bank shall be communicated to the Head/Principal office of the bank as also the office of SBP BSC (Bank) where the Head/Principal office of the bank is located. It shall be the responsibility of the bank to submit the requisite documents, as mentioned below, for the full value of the limit to the Chief Manager of the concerned office of SBP BSC (Bank) along with a bifurcation of the limit, which the bank would intend to avail from different offices of the SBP BSC (Bank).

a) Agreement as per prescribed format attached as Annexure 2;b) Demand Promissory Note to be executed by the bank as per prescribed formatattached as Annexure 3.

4.4 On receipt of the above documents the Refinance Unit of the concerned office of the SBP BSC (Bank) shall properly secure the original documents as per the prescribed procedure. It shall also intimate the amount of sub limit assigned to each office of the SBP BSC (Bank) on the basis of the request received from the bank concerned. The same office of the SBP BSC (Bank) shall be authorized to approve any variation in the said bifurcation, on the request of each bank, during the validity of the limit.

4.5 It shall be the responsibility of the bank to ensure that their overall utilization of the limit does not breach at the time of getting office wise reallocation of the limit among various offices of the SBP BSC (Bank). Any breach in this regard shall not be regularized and the excess amount, if so availed, shall be recovered from the bank by debit to its current account along with a nonrefundable fine, at the rate prescribed in Para 6.1.6 of the Scheme. This fine shall be borne by the bank, rather than be passed on to the exporter.

4.6 In cases where facilities are denied by the bank, under the EFS, due to reduction in its limit by State Bank, and the bank / exporter are not willing to continue their banker customer relationship the bank will facilitate the exporter to shift its liabilities under EFS to other bank(s) of the choice of the exporter. In such cases the new bank assuming the liabilities shall be under obligation to make payment of any demand finance availed by the exporter to the previous bank, to the extent of the amount required for settlement of the liability of the exporter concerned.

^ Top

Rate of Finance / Refinance

5.1 The rate of finance under the scheme shall only be applicable on the facilities disbursed by the bank and remaining outstanding during the prescribed period under the Scheme, i.e., from the date of grant of loan by the bank up to the due date/repayment date of refinance prescribed by the concerned office of the SBP BSC (Bank). The exporter shall be liable to repay its EFS loan (principal and markup etc) on its due date. In case the exporter fails to do so, it may continue to avail financing facilities from the said bank beyond the due date on their normal rates, benchmarked with KIBOR of the appropriate tenure. Such continuation shall be in accordance with the lending policies of the financing bank. The State Bank would, however, ensure that the bank does not continue to provide facilities under EFS and obtain refinance there against, in respect of exporters who persistently fails to perform their obligation under EFS for two consecutive years performance specially in cases where its application for refund of fine does not merit consideration under BPD Circular No. 23 of 2002.

5.2 Banks shall ensure that refinance applications in respect of the cases where disbursement has been made by them at the fag end of the service charges reset dates, whether fixed monthly or half yearly, are submitted complete in all respect for claiming refinance before the last date of the applicability of the rates. Incomplete applications, submitted to concerned office of the SBP BSC (Bank) shall not be entitled for refinance at the previous rate merely on the fact that the refinance application was lodged on the last date of the applicability of the specific rate. This stipulation shall be applicable in cases where the rates of service charges move upward.

5.3 **Frequency of payment of service charges:** The banks shall be liable to pay the service charges on the refinance availed by them on quarterly basis. These service charges shall fall due for payment within 3 working days from the close of the quarter. Likewise, PFI/Commercial Banks shall not require their borrowers under any Part of EFS to make payments of service charges and mark up at a frequency of less than a quarter.

5.4 **Rate of Service Charges under Part A:** The 180 days refinance provided by the offices of the State Bank shall attract service charges at a rate linked to the weighted average yields on six months treasury bills. The rate of service charges, for financing facilities for 180 days, shall be announced by the Small & Medium Enterprises Department of the State Bank of Pakistan on monthly basis, on or before last working day of each month.

5.4.1 In case the new rate of service charge announced by the State Bank, for financing of up to 180 days announced on monthly basis, for a specific month is in excess of the rate at which refinance has been availed by the bank, the old rate shall continue to remain applicable during the remaining period of loan.

5.4.2 Where the new rate announced by the State Bank has been reduced, the rate of service charge for refinance already availed and outstanding in the books of the State Bank shall also be reduced for the remaining period of the refinance loan as prescribed under the scheme. SBP BSC (Bank) will adjust the rate of service charges on cumulative amount of outstanding refinance allowed to each bank. Banks shall also be under obligation to re-price their finance accordingly for individual borrower, failure of which shall attract penalty.

5.5 **Rate of Service Charges under Part B & C:** The rate of service charges in respect of the facilities extended by the banks for a period exceeding 180 days under Part -B and Part - C of the Scheme shall be linked with the weighted average yields on 12 months T-Bills, 3 years, or 5 years PIBs depending upon the tenure for which financing facilities are provided by the banks.

5.5.1 In cases where refinance is provided for a period exceeding 180 days by the offices of the State Bank, the service charges shall be re-fixed on half yearly basis, at a rate linked to the weighted average yields of 12 months T-Bills or PIBs of relevant tenors, however, if the latest rates available for any instrument are older than six months, the SBP shall fix the rates at its discretion. The rate of service charges for financing facilities for period exceeding 180 days, shall be announced by the State Bank of Pakistan on or before last working day of half year in June and December. The rate of service charges fixed on disbursements made by a bank falling due for repayment in a period exceeding 6 months and up to the maximum period prescribed under the scheme shall not be re-priced.

5.6 **Banks' Spread:** The financing banks shall be required to ensure that where they provide facilities to the exporters under Part -B or Part - C of the Export Finance Scheme, for a period not exceeding one year, the maximum spread charged by them to each exporter does not exceed 1.5% on annualized basis, over and above the rate of service charge announced by the State Bank. Likewise, the maximum spread of the banks, where they provide facilities to the exporters for a period exceeding one year, shall not exceed 2% on annualized basis over and above the service charges announced by the State Bank, for the relevant tenure.

^ Top

Fines for Defaults

6.1 A default by a DE/IDE exporter / supplier / approved financial institution in fulfilling any of their obligations under the Scheme shall attract a fine to be imposed by the State Bank, which shall in no case exempt the exporter from realization of export proceeds. The fines, thus, recovered on account of any irregularities from the delinquent DE/IDE / supplier / approved financial institution, shall be in addition to the markup and service charges payable to the SBP on account of funds availed under EFS, and shall be borne by the delinquent party. Until further instructions the fine under the Scheme on account of various irregularities shall be recovered on the basis of the following rates:

6.1.1 **Non/Short in Performance** - If an exporter availing finance fails to meet the requisite performance as laid down in Para 12.3 below under Part A of the Scheme, the SBP BSC (Bank) shall recover fine, by debiting the account of the bank of the exporter, who availed refinance under the Scheme, at the rate of Paisa 28 per day per Rs.1000/-, or part thereof, on the amount of shortfall. However, if the exporter‘s shortfall in performance is in excess of 50% of the required performance fine shall be recovered at the rate of Paisa 37 per day per Rs.1000/- or part thereof of the amount of the shortfall.

6.1.2 **Failure to deliver Goods** - If an IDE/supplier who had obtained facilities under Part-B of the Scheme, fails to deliver the goods in full or part by the due date, he will be subjected to a fine at the rate of paisa 37 per day per Rs 1000/- or part thereof for the full period for which facilities have been availed for the value of non-shipment/short-shipment as the case may be. If the IDE/supplier subsequently delivers the supplies, he may apply through his bank for a refund of fine charged on account of non shipment/short-shipment. The same shall be refunded to him after charging of fine for late/delayed shipment at the rate of Paisa 28 per day per 1000/- or part thereof, provided the fine on account of delayed shipment does not exceed the fine for non shipment. In case the fine for delayed shipment equals or exceeds the fine for non shipment additional fine shall not be recovered.

6.1.3 **Excess Utilization** – Where an exporter fails to adjusts the refinance availed on completion of the refinance period, fine for excess utilization of funds shall be charged at a rate of Paisa 37 per day per Rs. 1000 or part of.

6.1.4 **Repayment of Refinance** - If a bank fails to deposit the amount of a repayment made to it by a DE/IDE or on behalf of an exporter or by a supplier/manufacturer/ agent, with the State Bank, towards repayment of the respective refinance loan, within 3 working days of receipt of the said amount, it shall be subjected to a fine at the rate of Paisa 42 per day per Rs 1000/- or part thereof, on the amount involved till the amount is deposited with the State Bank.

6.1.5 **Late submission of Statements** - Fines for late submission of the statement for the performance of the exporter, and shipping documents, where required by the Direct / Indirect Exporter/supplier to its bankers, shall be recovered by the bank at the rate of Rs 2000/-for the default and Rs 100/- per day for each day of default from them and passed on to the concerned office of SBP on next working day.

6.1.6 **Incorrect Reporting** -Fine for wrong information and incorrect reporting / entry in any statement required to be furnished to State Bank of Pakistan will be charged from the bank at the rate of Rs 100/- per such wrong entry. Such fine shall be passed on to exporter only in cases where the wrong entry was based on the information received from exporter.

6.1.7 **Other Defaults** - Fines for any other defaults by the Direct / Indirect Exporter/ supplier or bank shall be recovered at the rate of Paisa 37 per day per Rs 1000/- or part thereof.

6.2 The recovery of fine, if any under the Scheme, shall not be suspended for the reason that the exporter has submitted a request for waiver of fine prior to its actual recovery. However, where the situation has arisen that the entire industry or a sector is affected, the SBP may take a proactive action depending upon the situation. SBP's views in this regard shall be final.

6.3 The recovery of fine for non-performance under the Scheme shall not absolve the exporter concerned from realization of the export proceeds as per instructions of our Exchange Policy Department. Accordingly, they (EPD) or FEOD and/or FEAD of SBP BSC (Bank) on their behalf, shall continue to remain entitled to take actions in this regard as deemed fit by them under the relevant instructions.

6.4 Request for refunds of fine recovered under the Scheme from the exporter shall be considered as per procedure laid down in BPD Circular No.23 of 2002, except where otherwise stated. However, no request for refund of fine shall be entertained after expiry of three years from the date of its recovery by the concerned office of the SBP BSC (Bank). Banks as also exporters are required to note this.

^ Top

Verification of EFS cases

7.1 In order to stream line the verification process and to complete the same at the earliest, banks are advised to ensure that the following documents (in original or verified copies thereof where applicable) / information are kept in the files of the exporters for whom banks have availed refinance from the respective office of State Bank of Pakistan, Banking Services Corporation (Bank) under the captioned scheme :

7.1.1 Evidence that the payment has been made through cheques issued and honoured;

7.1.2 Evidence to the fact that the bank has claimed the reimbursement from SBP only when it has made disbursement to the exporter through cheque drawn and honoured;

7.1.3 Harmonized Code of the commodity for which financing facilities have been provided;

7.1.4 Documents, submitted by the exporter concerned for availing facilities as prescribed in the scheme.

7.1.5 Exchange rate employed where the price of the commodities have been quoted in foreign currency by the exporter / importer in the Invoice or LC or the firm export order as the case may be.

7.1.6 Date when the documents have been sent for collection or purchased / negotiated, along with complete audit trail, to the branch of the bank or directly to the Central Treasury of the bank, looking after the collection and proceeds realization matters. The Audit trail should clearly indicate the date and amount of receipt of funds by the first entry point in Pakistan and its subsequent transfers to the branch initiating the transaction.

7.1.7 Verified copies of shipping documents in respect of each case under Part B & C.

7.1.8 Calculation of the amount of fine, where applicable, along with the date of its recovery from the exporters supported by the amount and date when the same has been deposited with the State Bank.

7.2 The SBP BSC (Bank) concerned will nominate their representative Officers to scrutinize any particular branch/ Office(s)'s EFS records and intimate their names to the Zonal Chief of the bank one day before such verification. The bank shall extend all possible help for the smooth scrutiny of the cases and the officials of the bank shall cooperate with the authorized Offices to carry out their work expeditiously. Such scrutiny shall be in addition to the regular inspection of the bank conducted by our Banking Inspection Department. As such scrutiny by Export Refinance Section of concerned SBP Offices, shall not absolve banks from their responsibilities under the Scheme.

7.3 The concerned SBP Office will undertake random on-site scrutiny of refinance cases during the calendar year and will examine entire documents. In case irregularities are pointed out involving recovery of fine on account of any default in processing of case or scrutiny of shipping documents, fines levied upon banks for such irregularities shall not be refunded. However, where such irregularities / deviations were found to have been willfully suppressed by the employees of bank the concerned institution shall be at discretion for taking such punitive actions as considered appropriate by the management of the bank. Subsequent to the finalization of the scrutiny no claim for refund relating to modification in documents etc. from the borrower / bank will be entertained.

7.4 The Offices of SBP BSC (Bank) shall follow the procedure prescribed by the SBP in this regard.

^ Top

Period of Preservation

8.1 The period of preservation of record relating to Export Finance Scheme will be 3 years in cases where no fine has been recovered or fine recovered does not pertain to non shipment provided there is no dispute between the bank and the borrower on account of recovery of fine. Banks may like to protect their interest in such cases, without putting exporter to any hardship.

8.2 In cases where fine has been recovered from the exporter on account of non shipment or any other default, the banks shall be under obligation to keep records of such cases for a period of at least six years.

^ Top

Returns Submitted by Banks

9.1 Commercial Banks / PFIs are required to submit quarterly (relating to financing provided for export of commodities) and monthly returns (stating disbursement, outstanding and repayments by exporter under Part A, B (II), C and IDE) regarding the Scheme as per format of returns attached at Annexure 4 & 4a.The quarterly returns must be received by the Small & Medium Enterprises Department of the State Bank of Pakistan by the 15th day of the month following the quarter to which it relates. The monthly returns shall be required to be submitted by the 10th day of the month following the month to which it relates to the same department. Failure to submit timely returns shall result in imposition of penalty as prescribed under the Banking Companies Ordinance, 1962.

9.2 Every scheduled bank shall submit such additional returns or furnish such information in respect of refinance case as the State Bank of Pakistan may require, addition to those prescribed at Para 9 above),from time to time.

^ Top

Returns Submitted by SBP BSC (Bank) Offices

10.1 The SBP BSC Offices are required to submit quarterly, monthly and weekly returns on format attached at Annexure 5 & 5a. The weekly returns shall contain data regarding disbursement, repayments & outstanding amounts of EFS funds for Part A, B, C & IDEs and shall be submitted on the Saturday following the weekend. The SBP BSC (Bank) Offices shall be required to submit, to the Small & Medium Enterprises Departments of the State Bank of Pakistan, weekly returns latest by the Saturday following the end of a week, monthly returns by the 10th day of the month following the month to which it relates and quarterly returns by the 15th day of the month following the quarter to which it relates.

^ Top

General Guidance & Important Notes

11.1 **Codes:** For the purpose of availing financing facilities under the Scheme, SBP BSC (Bank) Offices and Commercial Banks shall be assigned a numeric code4 by the Small & Medium Enterprises Department of the SBP, which shall remain unchanged till further instructions. Similarly, each exporter shall also be assigned a five digit numeric code by the concerned offices of the SBP BSC (Bank). Once the exporter has been assigned the code, it shall be mandatory for the banks and the exporters to mention this code in their applications/statements and any other correspondence under the Scheme. Exporters shall also be required to obtain prior approval from the concerned office of the SBP BSC (Bank) (who will seek approval from the SMED) for shifting of their borrowings within the jurisdiction of one SBP Office to other. Such approval shall be granted promptly, provided the exporters request is supported by all its financing banks (on individual basis) and that the exporter submits the complete borrowing position under different parts of EFS from different bank(s) along with the amount of refinance availed at the time of seeking permission to transfer its borrowings from one office of the SBP BSC (Bank) to another. The exporter shall, however, continue to remain liable to submit the ER-TF and other documents under the Scheme to both offices of the SBP BSC (Bank) covering the period and the amount availed from them respectively.

11.2 **Recovery of Amounts Due to SBP:** The recovery of principal amount of refinance, the service charge on refinance or the fine under the Scheme shall not be contingent

4 This code shall be in accordance with the coding of the banks and SBP Offices, as assigned by the Information Services Department of the State Bank of Pakistan. upon the submission of a debit advice by the bank concerned. SBP BSC (Bank) shall, however, ensure that the current account of the bank is not debited, if not justified. However, as each Refinance Unit invariably mentions the due date of refinance at the time of its grant and will also issue notice for recovery of fine, and the fact that banks are aware of the due dates for payment of service charges, they are required to ensure that the total amount likely to be recovered by the State Bank on account of EFS is appropriately intimated to their concerned departments so as to enable them to make arrangements of sufficient funds in their current account on the due date of refinance / recovery of fine. Such an arrangement may avoid the shortfall in the cash reserve requirements of the bank, as also the fine that may be levied on account thereof.

11.3 **Approval of SMED for deferred payments/ realization of proceeds:** According to Foreign Exchange Regulations existing at present, the export receipts are generally required to be repatriated to Pakistan within a maximum period of 180 days from the date of shipment. Therefore, in all cases, where a longer deferred payment period is involved, the exporter is required to obtain prior approval of the Exchange Policy Department of the State Bank of Pakistan. For the convenience of the exporters, it has been decided that prior approval of the Small & Medium Enterprises Department for grant of refinance would also signify approval from the Exchange Control point of view. Approved PFIs shall invariably seek prior approval of the Small & Medium Enterprises Department before sanction of the facilities to the exporters where export proceeds are required to be realized in a period exceeding 180 days from the date of shipment.

11.4 State Bank of Pakistan reserves the right to cancel or reduce the limit granted by it to a scheduled bank or to reject the demand promissory note of any particular exporter submitted by the bank. State Bank will also have the right to debar any exporter if it is satisfied that it has misused the facility. Decision of the State Bank in this regard shall be binding upon banks/ exporters.

11.5 Some important **tips for exporters/ banks to facilitate record keeping** of the exporter and continuous monitoring by the banks where facilities have been availed under any part of the scheme, are given hereunder for guidance:

11.5.1 While scrutinizing the loan application, the bank shall ensure that exporter is availing the loan against a commodity which is eligible for exports. For this purpose, the HS Code for each commodity as mentioned in scrutiny sheet (as per Annexure 9) shall be compared with the Negative list and if the code is not appearing in the same, the commodity for which facility is being sought shall be considered eligible under the Export Finance Scheme.

11.5.2 A stamp should be affixed invariably on the original copy of a firm export order / contract / letter of credit indicating the refinance loan No. and amount allowed by SBP subsequently for record purpose, where the facilities have been availed on transaction basis.

11.5.3 In case, any exporter has applied for transaction based finance against a firm export order / contract / letter of credit which has already availed finance / refinance in part, it must be ensured that the exporter has affixed a stamp on such firm export order / contract / letter of credit duly countersigned by the authorized signatory of the bank through which Demand Loan has been obtained.

“Utilized for refinance under Demand Loan (D.L.)

No._________ dated ___________ Amount (in words)” It must also be confirmed that loans being availed of are covered under the above contract / letter of credit. The bank shall keep original and a photo copy of firm export order / contract / letter of credit with endorsements on its reverse for record purposes for the period as prescribed under the Scheme.

11.5.4 It shall be ensured that, no finance is provided to an exporter for any amount of advance payment already received by him under a firm export order / contract / letter of credit in cases involving transaction based funding under the Scheme.

11.5.5 To avoid duplicate financing against same export consignment/ contract, EC, ELC, the monitoring of loan shall be done on the basis of Goods Declaration Form (GDF) and/or E - Form number and the bank will ensure that one shipment utilized against a particular GDF and/or E – Form is not included for reporting under another firm export order / contract / letter of credit or the entry involved has not been / will not be reported for export performance under any other part.

11.5.6 For transaction based financing under the Scheme the stamp or date of “Shipped on Board” on Bill of Lading or flight date as shown on Airway bill will form the basis for determining actual date of shipment for calculation of period of delay in shipment under the Scheme if any. However, where shipment is effected from a Dry Port, the date of receipt for shipment as appearing on shipping bill or the date of custom clearance on duplicate E Form or GDF appraised by custom authorities at Dry Port, as the case may be, will be taken into account

11.5.7 In case of transaction based facilities, 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. Refinance shall be repaid by bank from its own sources on expiry of the maturity period of the loan. If the bank fails to do so, the concerned office of the State Bank shall recover the same on due date by debit to its account as is done at present. However, where repayments have been made by exporter before expiry of the loan, the same shall be repaid to State Bank within three working days from repayment made by the exporter, excluding the date of repayment to SBP. In case of default in repayment there will be no grace period and fine for the entire period for which the repayment was delayed will be charged at the prescribed rate. Intimation regarding repayment, giving particulars of respective demand loan shall be promptly made to the concerned office of the State Bank of Pakistan. Efforts shall also be made for prompt communication among different branches of the bank concerned with the branch dealing with respective office of the State Bank.

11.5.8 It will be obligatory on the part of the exporter to negotiate and realize the export proceeds under a specific PGD or E - Form through the bank from which he has availed of refinance loan(s). However, in case circumstances do not permit realization of proceeds under a specific PGD or E-Form/Export documents through the bank which had issued the same, the realizing bank will realize and pass on the amount realized to the E Form issuing bank, promptly but not later than 3 working days of receipt of funds by it. Such proceeds when realized will be credited in the accounts of the exporter by the receiving bank only upon a specific NOC of the E-Form issuing bank. In that case too, the bank issuing NOC will be held responsible for delay in repayment of amount of refinance loan involved, if any.

11.5.9 The date of realization for the purpose of repayment of finance shall be the date of receipt of telex, advice or swift message by the Head Office or Principal Office or Zonal Office of a bank, however, overnight receipts of such telex / advices / messages will be considered as receipts in the next working day in Pakistan. The export proceeds shall be appropriated within three working days towards liquidation of refinance loan. The Head Office / Principal or Zonal Office should ensure that it passes credits immediately to the concerned branches within a reasonable period of time. The date of liquidation of refinance loan shall be exclusive of the grace period.

^ Top

Part A - Trade Finance for Exports

12.1 Part A of the new scheme broadly constitutes the existing stipulations of the export finance scheme with the exception that the distinction between Part-I and Part-II of the existing Export Finance Scheme shall cease to exist. However, Part A of the new scheme shall operate on the basis of the exporters' performance during a calendar year. The trade finance facility, however, shall be disbursed on July-June basis and will have a maturity of 180 days at a stretch. The exporter shall be entitled to re-borrow to the extent of the limit for another 180 days or up to June 30 each year (whichever is earlier) as per Para 12.3.1. The disbursements shall be made by the banks to the existing and the NEE on the basis of limits sanctioned to them as per procedure mentioned in Para

12.2 of the scheme.

^ Top

Entitlement to borrow

12.2.1 Entitlement of facilities for each exporter shall be determined on the basis of export proceeds realized against export of eligible items / commodities under Export Finance Scheme / IERS in a calendar year (i.e. Jan-Dec). The facility, against entitlement so fixed, shall be disbursed by the financing banks during the financial year (i.e., Jul-Jun).

12.2.2 The exporters shall be required to submit in triplicate (copies to be marked as 'original', 'duplicate' & 'triplicate') necessary details regarding exports of eligible goods made by them during the calendar year on Exports Realized – Trade Finance statement (ER-TF), as per prescribed format attached at Annexure 5. The ER-TF statement of the exporter shall contain the amount of foreign proceeds realized by the exporter, through the export of eligible goods under Part A and Part C of the scheme, whether financed under EFS or through other sources, for determining the entitlement of limits under Part A of the Scheme only. The bank shall ensure that one export order/shipment is not financed by the banks from their own sources as also under EFS at any time. The amount realized as advance payment, received by the exporter during the calendar year, shall be incorporated in the ER-TF statement, provided that shipments against the same have been made during the same monitoring/financial year, according to the terms of the export contract and the shipping documents thereagainst are without any discrepancy or the same have been accepted by the importer abroad. In case the shipment against advance payment has not been made in the same calendar year, its realization as also shipment shall be appropriately reported in the calendar year when the shipment has been made.

12.2.3 Each exporter shall be liable to prepare this statement and submit the same to its banks within a period of two months i.e. up to end February each year5.

12.2.4 The financing bank(s) of the exporter shall verify the particulars mentioned by the exporter in ER-TF in respect of exports routed through them and amount realized thereof during the period.

12.2.5 In case any of the transactions reported by the exporter does not correspond with the record of the financing bank, the financing bank shall notify the serial number of such transactions, along with the amount thereof, in its covering letter. For entries whose particulars are in compliance with the record of the bank, the bank shall mention the particulars of the relevant schedule (and month) in which realization of foreign proceeds in respect of these transactions have been reported to the Foreign Exchange Operations Department (FEOD) of the concerned office of the SBP, BSC (Bank) or FEOD SBP BSC (Bank) Head Office Karachi as the case may be. The Bank will complete this assignment, for each exporter, within 15 days from the receipt of the statement from the exporter concerned, and shall submit the same to the Refinance Unit of the concerned office of the SBP, BSC Bank, from where the financing bank has availed refinance.

12.2.6 The Refinance Unit of each office of the SBP, BSC (Bank) shall verify the eligibility of the commodities under the Scheme within 15 days from the receipt of the statement from the bank concerned, where after they shall be liable to seek verification of the export proceeds reported in the aforesaid statement through the concerned FEOD. However, the commodities ineligible under the scheme and the aggregate amount thereof, mentioned in the ER-TF statements, shall be immediately informed to the bank and the exporter on their designated E-mails or through courier service as mentioned in Sub Para (iii) of Para 12.3.6 below.

12.2.7 The process as mentioned in Para 12.2.5 above shall be completed latest by 2 months from the receipt of the duly verified ER-TF from the bank of the exporter in the Refinance Unit of the concerned office of SBP BSC (Bank). The refinance unit shall be under obligation to mention the serial numbers in respect of the transactions involving the export of commodities ineligible under the scheme on a separate sheet (without canceling them on the statements) containing the individual amount of each

5 In order to ensure smooth transition from the present Export Finance Scheme to the new Export Finance Scheme, the first ER-TF shall be prepared for the calendar year ending December 2006. transaction as also the aggregate amount. Likewise, the serial number and individual amounts of the transactions (and the aggregate amount) not verified by the FEOD shall also be mentioned in a separate portion of the same sheet. The total amount so found ineligible for trade finance shall be deducted from the total amount of the transactions reported by the exporter in the ER-TF in respect of eligible goods as export proceeds realized during January-December each year under the Export Finance Scheme.

12.2.8 The limit of each exporter to borrow, under Part-A of EFS, during July-June each year shall be fixed equivalent to 3/4 times (i.e. 75% as against present 50% under Part-II) of the amount finally verified as export proceeds realized6. The limits so fixed for each exporter shall be communicated to the concerned bank, having submitted the ER-TF by the Refinance Unit of the concerned office of the SBP, BSC (Bank), immediately, but not later than 7 days, after receipt of the verified copy of the ER-TF statement from the FEOD.

12.2.9 After verification, the Refinance unit shall return the ‘original’ & ‘duplicate’ copies of the ER-TF to the concerned bank and retain the third copy for its record.

12.2.10 While computing entitlement of an exporter for a limit, the proceeds realized by each exporting entity shall be considered separately. In other words, the proceeds realized by the sister companies, group companies, subsidiaries, or holding companies, or sole proprietorship or partnerships managed by one person or a partnership firm or a company shall not be clubbed together for fixation of limits under the Scheme for one group. Likewise, the performance of one entity shall not be clubbed to allow a particular exporting entity to meet the shortfall in the performance.

12.2.11 However, in cases where an entity is converted from one form of business to another (sole proprietorship/ partnership/ private/ public limited company) the newly converted entity shall be allowed to count the performance of old entity, provided relevant documentary evidence has been submitted to the concerned office of the State Bank BSC (Bank), as per instructions already issued to them.

12.2.12 The transaction based facilities, previously offered under Part I of the EFS against individual Firm Export Order / Export Letter of Credit, shall now be offered under Part-A of the Scheme, and shall be available for New and Emerging Exporters (NEE) only. For such exporters, the banks would also sanction the facilities after taking due diligence about their potential to execute the specific export order, as also the credit risks and other risks associated with the transaction as per the lending policy of the

6 For transition period arrangements please see Para 10.5.1.

financing bank. In case of NEE the SBP shall allow refinance to the financing bank against disbursements made by them to the exporters to the extent of the limits so fixed, till such time the exporter has achieved export operations for a calendar year, provided;

provision of facilities under such arrangements does not exceed twenty months;

the period of twenty months shall start from the date when a bank has provided finance to the new & emerging exporter under EFS shall be completed on the last working day of December;

twenty months period shall be considered on overall basis rather than bank to bank basis;

during the period of twenty months the quantum of facilities under the scheme, shall be equivalent to the value of the firm export order / invoice value, disbursed for a period of 180 days;

after completion of the period the quantum of financing facilities to such exporters shall be fixed in accordance with the procedure prescribed under the Scheme for the existing exporters.

12.2.13 Any existing exporter who has not been required to submit the ER-TF statement (as defined in Para 12.2) for a period of two consecutive calendar years shall also be treated as a New & Emerging Exporter.

^ Top

Performance Requirements

12.3.1 The exporters are encouraged to mention all export proceeds realized by them during a year for the purpose of determining entitlement (as mentioned in Para 12.2.1 of the Scheme). However, it is stressed that the performance under each Part is separate and independent of performance under any other Part of the scheme. The exporter may not substitute the transaction based performance under Part C or Part B to meet the performance requirements under Part A.

12.3.2 While the limit fixed under Part-A of the EFS for each exporter shall be valid for a period of twelve months, financing facilities to each exporter shall be available for a maximum period of 180 days in one instance[7]. Likewise, the refinance facilities shall also be provided to financing bank by the concerned office of the SBP BSC (Bank) for a period of 180 days. The exporter shall be entitled to re-borrow this amount for

7 The period is relaxed for carpet exports; financing is initially disbursed for 180 days, however it is rolled over for a further 90 days (i.e. for a total of 270 days). another period of 180 days or uptil 30th June each year in the event that its entitlement, for facilities under EFS for the new financial year, is determined at a lower level. As under the new arrangements the exporter’s limit shall be fixed prior to close of each financial year, the exporter shall have to arrange to reduce its borrowings under EFS to the new level on 1st July each year, failing which the account of his bank shall be debited by the excess amount, along with applicable penal charges (as prescribed in Para 6 of the scheme). The exporters shall, however, continue to remain entitled to borrow normal financing from their banks as per the lending policies of the banks.

12.3.3 Each exporter availing facilities under the Scheme shall be required to ship goods, eligible under the Scheme, as per arrangements agreed to with the importer abroad, and realize (during that calendar year) at least an amount exactly equal to their borrowings on gross basis, vis-à-vis their entitlement to borrow under EFS[8]. However, the shipment must be made during the same financial year for which limit is sanctioned and the refinance availed.

12.3.4 State Bank shall rely solely on the amount of export proceeds realized and reported to the FEOD by the bank(s) of the exporter concerned, as an evidence of use of the funds for the purpose of export, provided the performance requirement has been fulfilled in accordance with the instructions of the Scheme. This will eliminate the requirement regarding submission of shipping documents to the SBP BSC (Bank) Offices by the exporter under Export Finance Scheme. Although the banks would also be expected to rely on the proceeds realized by the exporters through it, they are, however, encouraged to continue to collect the shipping details from their borrowers to gauge the performance of the exporters vis-à-vis the amount borrowed by them under the Scheme on a continuous basis. SBP will ask for physical verification of the relevant documents only in cases where the exporter has failed to achieve the performance requirements of at least equivalent to 2/3 of such requirements for two consecutive years. This would be used to determine that the finances were used for execution of export order and affecting exports thereof.

8 As an explanation, consider that the limit of a borrower has been fixed at Rs 100M for the FY07 (i.e., Jul 06-Jun 07), based on ER-TF of 2005. During FY07, the exporter borrows Rs 100M for 180 days and upon completion of 180 days repays the Rs 100M. Keeping in view his financial requirements, he borrows further Rs 80M for 180 days and Rs 10M for last 5 days of the financial year. He is required to realize export proceeds equivalent to Rs 190M (100+80+10) during the calendar year 2007 and report the same through the ER-TF statement of 2008, which will also be used as a bench mark for calculating entitlement for the year 2008-09. (NOTE: The exporter must ship goods during the same

fiscal year in which financing was availed).

12.3.5 The exporter having failed to achieve the required performance shall be subject to a fine at the scale mentioned in Para 6.1 above. However, to ensure that the imposition of fine by all offices of the SBP BSC (Bank) is standardized each office shall follow the procedure as mentioned in the following lines: a) The exporter who fails to submit the requisite statement to the concerned office of the SBP BSC (Bank), through his bank showing performance (EE & EP-TF in the first two years on July-June basis of the Scheme and ER-TF thereafter) on the first working day after completion of two months and fifteen days, from the closing date of the relevant period of each statement, shall be subjected to a fine of non performance on the full amount of refinance availed by their bank(s) during the year on July-June basis. This fine shall be recovered by the Refinance Unit of the concerned office of the SBP BSC (Bank) by debit to the current account of the concerned bank, which shall recover it from the exporter concerned. b) On receipt of the duly filled in statement, the fine for non performance shall be refunded forthwith on the next working day, following the receipt of the requisite statement, on provisional basis provided that the performance as claimed by the exporter and verified by the bank is equivalent to the performance required under the scheme as per the record of the concerned Refinance Unit/FEOD. The Refinance Unit shall, however, retain fine for late submission of the requisite statement at the rate of Rs 5000/= per day, which shall be non refundable. Exporter or the bank, as the case may be, depending upon the reasons and the responsibilities concerning the late submission of the requisite performance report, shall absorb this fine.

c) Where the final verification of the performance of the exporter reported in the requisite statement, as per procedure prescribed in Para 12.3, transpire that the exporter has failed to achieve the required performance, the Refinance Unit of the concerned office of the SBP BSC (Bank) shall issue a notice to the bank concerned with a copy to the exporter concerned to deposit the fine within a period of 15 days from the receipt of the notice. The notice shall be dispatched to the bank as also the exporter through courier (at the expense of the bank / exporter to be recovered from the current account of the bank) or E-mailed, if provided. Banks / Exporters are, therefore, encouraged to provide their E-mail addresses to the concerned office of the SBP BSC (Bank), where the SBP has provided the official E-mail accounts to its dealing officers/Chief Managers9. It shall be their responsibility to ensure that this E-mail address is continuously working and checked by their designated officer as in case the notice has been E-mailed at the e-mail address provided by the bank / exporter, the record of E-mail sent by our office shall be construed as sufficient evidence that the 15 days notice has been served upon the bank / exporter10. The bank / exporter may, therefore, like to intimate more than one e-mail address to the SBP BSC (Bank), or alternatively they may like to continue to receive the notices through courier at their cost, to be recovered, at actual, from the bank of the exporter. The bank shall be authorized to recover the courier cost from exporter at actual. State Bank will, however, send the notice through normal mail or Dispatch rider (where available) as usual, in addition to the notices sent through E-mail.

d) Failure of the bank / exporter to submit evidence of performance to meet the shortfall, within the period of 15 days from the issuance of the notice by the Refinance Unit, shall result into recovery of the differential on account of fine from the account of the bank concerned, who will have the right to charge / recover the same from the exporter concerned.

12.3.6 In order to further reduce the documentation requirements, the State Bank after completion of transition period of the Scheme, shall use the ER-TF statement as an input to monitor the performance of the exporters availing financing facilities under Part-A of the Scheme. Thus, exporters' entitlement as also performance shall be worked out on the basis of one document. However, during the transition period (one to two years) each exporter shall prepare and submit "Export Performance against Trade Finance" on the basis of proceeds realized through export of eligible commodities on July-June basis. The said performance shall be reported to SBP on the prescribed statement "Export Performance –Trade Finance" (EP-TF) as per details stated in Para

12.5. 9 The SBP BSC (Bank) Karachi, Lahore, Islamabad, Rawalpindi, Faisalabad and Peshawar have been provided outlook access as on the date of issue of this circular. In all other offices the Chief Managers have access to the internet and e-mail accounts on the basis of ISPs. 10 All offices of the SBP BSC (Bank) are advised to maintain a hardcopy/print of the notice served through E-mail and to ensure that a copy of the same (i.e. printout of the sent items of e-mail) is dispatched along with the notice through normal mail/ courier (where opted for by the bank/exporter).

^ Top

Roll over of limits of Exporters

12.4.1 As alreadymentioned in Para 12.2 above, each exporter shall be entitled to a borrowing limit under EFS for utilization during July-June each year. This limit shall be worked out on the basis of the export proceeds realized by the exporter concerned during a calendar year preceding the year. In other words this limit shall be worked on the basis of the second half of FY1 and first half of the FY2. Therefore, the extension of the exporter's limit shall no more be required as these limits shall be fixed and conveyed to each exporter well before the start of the financial year. However, should for any reason fixation of new limit is not finalized before the start of the financial year the State Bank shall roll over the limit of each exporter at the previous year's level. In case the new limit subsequently worked out by the State Bank is less than the previous year's limit of the exporter, the exporter shall be liable to:a) Reduce borrowings under EFS to the new level immediately; b) Pay fine at a rate prescribed in Para 6.1.6 above of the scheme for utilization of the limit in excess of the entitlement. In cases where the delay in finalization of the limit is on account of the delayed submission of relevant information (true in all respects), the fine shall be absorbed by the bank or the exporter depending upon who was responsible for the delinquency.

^ Top

Transition Period Arrangements

12.5.1 **ENTITLEMENT -** During the Transition Period, expected to be of about 2 years, the entitlement for limit for each exporter for availing facilities under Part-A of the modified Export Finance Scheme during 2005-06 shall be equivalent to ¾ of the simple average of the EE statements pertaining to the financial years 2003-04 & 2004-05. Owing to transition the exporter shall not be subject to fine for excess borrowing over the limit; though they will be liable to adjust their borrowings within a period of 15 days, failing which it shall be reduced by recovery of refinance from the bank concerned.

12.5.2 Export performance, during the transition period, shall be reported to SBP on the prescribed statement “Export Performance –Trade Finance” (EP-TF) as per format attached at Annexure 6. In this regard the exporter/bank as also offices of SBP shall be required to ensure the followings:

12.5.3 Each exporter shall be liable to prepare this statement and submit the same to its banks within a period of two months i.e. up to end August (for FY06 & FY 07) as at present.

12.5.4 The financing bank(s) of the exporter shall verify the particulars mentioned by the exporter in EP-TF in respect of exports routed through them and amount realized thereof during the period.

12.5.5 In case any of the transaction reported by the exporter does not correspond with the record of the financing bank, the financing bank shall notify the serial number of such transaction and the amount, in its covering letter. However, entries whose particulars as reported by the exporter are in compliance with the record of the bank, the bank shall mention the particulars of the schedule and month through which realization of foreign proceeds in respect of these transactions have been reported to the Foreign Exchange Operations Department (FEOD) of the concerned office of the SBP, BSC (Bank) or FEOD SBP, BSC (Bank) Head Office Karachi as the case may be. The bank will complete this assignment within 15 days from the receipt of the same from the exporter concerned, and shall submit the same to the Refinance Unit of the concerned office of the SBP, BSC Bank, from where the financing bank has availed refinance.

12.5.6 The Refinance Unit of each office of the SBP, BSC (Bank) shall verify the eligibility of the commodities under the Scheme where after they shall be liable to seek verification, of the export proceeds as reported in the aforesaid statement, from the concerned FEOD. However, the ineligibility of certain commodities mentioned in the EP-TF statements and the aggregate amount thereof shall be immediately informed to the bank and the exporter on their designated E-mails or through courier service as mentioned in Sub Para (iii) of Para 12.3.65. The refinance unit shall be under obligation to mention the serial number in respect of the transactions involving the export of ineligible commodities (as per the scheme), on a separate sheet (as per the prescribed format) containing the individual amount of each transaction. Likewise, the serial number and individual amounts of the transactions not verified by the FEOD shall also be mentioned in a separate portion of the same sheet. The total amount so found ineligible for trade finance shall be deducted from the total amount of the transaction reported by the exporter in the EP-TR in respect of eligible goods as export proceeds realized during July-June each year under the Export Finance Scheme. The total amount so found ineligible for incorporating in each EP-TF shall be deducted from the total amount of the transaction reported by the exporter in the EPTF as export proceeds realized during July –June each year.

12.5.7 The Refinance Unit of the office is expected to complete the process regarding exclusion of the commodities ineligible under the scheme within a week’s time to enable the concerned FEOD to complete the process within a maximum period of seven weeks enabling the completion of the entire process mentioned at sub Para ‘d’ of Para 12.5.1 above shall be completed with in a maximum period of two months from the receipt of the duly verified EP-TF from the bank of the exporter.

12.5.8 The performance in respect of the facilities availed under the Scheme during 2005-06 shall be submitted as per criteria prescribed in the revised instructions contained in Para 12.2 & 12.5.1 above. The time period in respect of submission of EF & EP-TF statements for both the years shall be observed as per instructions mentioned in Para

12.5.1 above; and that the statement shall be submitted to the Refinance Unit of the concerned office of the SBP BSC (Bank).

^ Top

Part- B Transaction Based Facilities

13.1 The transaction based facilities under the Export Finance Scheme shall be provided on short term basis to indirect exporters, exporters supplying locally manufactured / machinery/ goods, locally, against international tender, provided payments of such goods are made in foreign currency.

^ Top

Trade Finance for Indirect Exporters

13.2.1 It has generally been felt that the Indirect Exporters (IDEs), specially SMEs, supplying inputs to the exporters for executing export orders do not have access to adequate financing facilities from the financial/ formal sector. Even in cases where IDEs obtain financing from banks, they do not obtain the same in line with the rates on EFS facilities available to the direct exporters. Thus, the cost of financing facilities used by the IDEs is relatively high, which is reflected in the cost of input supplied by them, this in turn adds to the non-competitiveness of our exports. Thus, it is imperative that the Indirect Exporters also get financing from banks at rates equivalent to EFS rates, so that they are able to provide inputs to the DE at competitive rates.

13.2.2 **Entitlement to avail EFS:** Efforts have been made to bring these IDEs within the ambit of the Export Finance Scheme. Each IDE will become entitled to avail financing facilities under the Export Finance Scheme on fulfilling the following requirements:

The DE shall place the order to the IDE using the Standardised Purchase Order (SPO) as per the format attached herewith at Annexure 10.;

The financing bank of the IDE will be required to satisfy itself as to the abilities of the IDE to supply the materials/inputs to the DE;

The DE as also IDE shall be required to execute a tripartite agreement with the financing bank of the IDE for assignment of receivable of the IDE from the DE to the financing bank of the IDE. In this tripartite agreement the DE, among other things, shall undertake to make payments of the goods received from the IDE directly to the bank of the IDE and that DE shall not cancel the order placed on to the IDE without informing the financing bank of the IDE.

13.2.3 For availing EFS, the IDE, as proof of order shall submit to his financing bank the SPO issued by the DE. Each DE shall be under obligation to send a copy of SPO to its financing bank, who will maintain a record of the same to ensure the ceiling prescribed in Para '13.2.3' below is not breached. The SPO issued under EFS shall not be used for claiming any other financial benefit by the DE or the IDE.

13.2.4 The total quantum of the SPO issued by the DE to a single IDE shall not be more than 25% of his total exports realized during the previous year, whichever is less; as verified under Part-A of the Scheme11 .

13.2.5 The period of financing to the IDE shall not be in excess of 120 days or the supply date which ever is earlier.

13.2.6 Frequent cancellation of orders placed on IDE(s) by the DE without sound justification shall impair the abilities of the DE to borrow funds under EFS.

13.2.7 There will be no facility of substitution, and in case the IDE is unable to deliver the goods as per the terms of the SPO, fine for non delivery/ supply at the rate mentioned in Para 6.1.10 above, shall be recovered from the financing bank of the IDE who will be entitled to recover it from the IDE. Where the goods/inputs have been supplied after a delay the IDE shall be liable to pay fine for late delivery in accordance with the scale of fines as mentioned in Para 6.1.1 above. In such a situation the IDE shall be entitled to an automatic refund of fine charged on account of non-delivery by the concerned office of the SBP (BSC) Bank provided the fine for late delivery does not exceed the fine for non-delivery. However, in cases where fine for non-delivery exceeds the fine for late delivery additional fine shall not be recovered.

13.2.8 The financing to the IDE under the EFS shall not be in excess of the 80% of the amount of SPO.

13.2.9 The office of SBP BSC (Bank) will recover the fine for non-delivery in case the documentary evidence regarding the delivery of goods has not been furnished to them through the bank of the IDE in a period of 20 days from the due date of the refinance or the due date of delivery mentioned in the SPO, whichever is applicable. As the financing for the IDE is pre-shipment in nature, it is expected that the delivery date shall be commensurate to the period of financing.

11 For the first year of operations this will be worked out on the basis of the most recent EE Statements, verified by the concerned FEOD. The claim of the DE in this regard shall be subject to verification by the External Auditor of the DE in case of corporate entity and by the Authorized representative of the financing bank of the DE in case the DE is a sole proprietor or partnership company. The financing banks of DE and IDE shall be under obligation to coordinate with each

other in this behalf.

^ Top

Trade Finance for Goods supplied against International Tenders.

13.3.1 In Pakistan the locally manufactured plants and equipments thereof of different types, especially such engineering items that are required for industrial purposes, electrification etc; are also supplied to different executing agencies of Pakistan origin, as also various international agencies operating in Pakistan, against contract awarded through international tenders. Where payments against such supplies are made in foreign currency, the supplier / manufacturer shall be eligible to avail finance under the Scheme, from any commercial bank, up to the amount of the contract less advance payment, if any, in case of capital goods such as engineering goods required for industrial/ electrification purposes, ships and cargo vessels, other transport equipments, as also other items not included in the Negative List under the Scheme.

13.3.2 Finance under the scheme shall be allowed /calculated by subtracting the advance payments from the invoice/ contract value. It is mentioned here that for providing refinance SBP shall assume that 10% of the invoice/contract value, by way of advance payment, has been made to the exporter. Where the contract between the supplier and the executing agency does not contain a clause for advance payment the entitlement for refinance shall be computed by treating as if advance payment to the extent of 10% of the value of contract has been paid.

13.3.3 The finance under the scheme for this purpose shall also be available for a period of 180 days in normal cases. However, the bank may provide finance for a longer period subject to a maximum of three years, depending upon the contract between the supplier and the executing agency and the risk profile of each borrower (supplier), which should invariably assess their abilities to provide the items in question. Where finance is required for 180 days the same shall attract a rate applicable for financing for a period of 180 days. However, in case the financing is required for a longer period subject to a maximum of three years the financing shall attract rate worked out on the basis of the weighted average yields on 12 months T-bill (where period of financing is up to 12 months) or three years PIB (where period of financing is up to three years) with a permissible spread for the financing bank as applicable on financing for equivalent periods under Part-C of this Scheme.

13.3.4 **Documents Required:** The financing bank shall provide the finance facilities to their qualified borrowers, on submission of the following documents / information:

(i) A certificate from the executing agency awarding the contract, confirming that in the particular case it was obligatory to float an international tender, along with a press clipping in original establishing floatation of international tender;

(ii) A copy each of the relevant contract between the executing agency making purchases and the supplier as well as the relevant loan agreement between the international financing agency and the executing agency, duly attested by the financing bank. However, this condition is waived in cases involving local supply of goods to international relief agencies.

(iii) The supplier’s schedule of deliveries indicating the dates of deliveries and the quantity and value of goods to be delivered against the contract along with the program of manufacture / production with quantities and cost duly attested by the bank;

(iv) Schedule of financial requirements of the supplier with reference to the relevant contract, indicating the amount required at various intervals in line with the schedule of deliveries;

(v) Submission of an undertaking by the borrowers as per Annexure 7 as also an assignment agreement with the bank (on the format prescribed by each bank) to the affect that the proceeds against the deliveries required to be made under the scheme shall be routed through the financing bank, who shall have the right to adjust its loan as also charges, mark up etc; thereon from the proceeds of such deliveries;

13.3.5 A duly filled in scrutiny sheet, as per format attached as Annexure 9, containing the facts of the case as mentioned in the relevant documents. This scrutiny sheet shall be filled in by the borrower and countersigned by the financing bank as to the accuracy of the information mentioned therein.

13.3.6 Where a bank has provided finance to the supplier in terms of Para 13.3.3 above, it may obtain refinance from the concerned office of the SBP BSC (Bank) to the extent of 100% of the finance provided by it on execution / production of the following documents:

a) Certified Photostat copies of the documents mentioned at (i) to (v) of Para 13.3.3 above;b) Original scrutiny sheet as mentioned in Sub Para (vi) Para 13.3.3 above, c) Demand Promissory Note on the prescribed format in Annexure 8;d) Undertaking as per format attached at Annexure 7;

13.3.7 The office of the SBP BSC (Bank) will allow refinance within 24 hours of receipt of a request from the financing bank on the basis of the documents mentioned above, provided certified copies of all the documents mentioned in Para 13.3.3 above have been produced and a preliminary check thereof shows that the same are prima fascia in order. In case detailed scrutiny of the documents shows that the same contain any deficiencies or defects and / or refinance has been allowed in excess of the entitlement as covered under the scheme, the institution concerned will be advised of the same by the office of the SBP BSC (Bank). Notice in this regard shall be issued using the procedure as described in Para 12.3.65 above. However, the excess refinance shall, be recovered immediately together with fine thereon at the rate mentioned in Para 6.1.2 above by debit to the account of the institution concerned under advice to it. In case of the failure of the bank to do the needful within the stipulated time the SBP BSC (Bank) will recall the refinance by debiting the outstanding amount to the account of the bank maintained with them along with fine as mentioned in Para 6.1.6 above under advice to the institution.

13.3.8 On rectifying the deficiencies / defects by the financing bank to the satisfaction of the State Bank, the refinance will be restored to it, and fine already charged would be refunded. Similarly, in the case of excess refinance recovered from the institution, on its producing satisfactory evidence to justify grant of the same, the amount involved will be re-allowed to it and the fine already charged shall also be refunded, from the date of submission of notification acceptable to the SBP BSC (Bank).

13.3.9 Each exporter shall be required to submit evidence of delivery/ shipment of goods etc to the executing agency, or as directed by it, as per the delivery schedule. The verified copies of requisite documents (delivery challans, goods receipt notes, truck receipts etc), duly verified by the financing bank, should reach the concerned office of the State Bank of Pakistan BSC (Bank) within 30 days from the date of delivery/ shipment. Where delivery/ shipments have been made on staggered basis, the 30 day period shall commence from the date of last delivery/shipment of the last consignment.

13.3.10 The exporter/ financing bank shall be liable to repay the facilities availed under the Scheme on pro rata basis on the due dates of shipments, as reported to the SBP BSC (Bank) at the time of availing refinance; or the revised delivery schedule approved by the executing agency and as agreed to by the SBP for the purpose.

13.3.11 Where the shipping/delivery documents as mentioned in Para 13.3.8 above, are not submitted to the concerned office of the SBP BSC (Bank) within 30 days of the due date of refinance/ shipment, the said office shall recover fine for non-delivery/ non-shipment under the scheme as per Para 6.1.1 0 above on the full balance of the loan amount. The fine so recovered shall be automatically refunded upon submission of the documents, however, fine for late submission and delayed/ short shipment (as the case may be) shall be recovered by the office as prescribed under Para 6.1.1 above the Scheme.

13.3.12 There will be no facility of substitution, and in case the exporter is unable to deliver the goods to the executing agency, or as directed by it, the exporter shall be liable to pay fine for non shipment at the rate mentioned in Para 6.1.1 above of the Scheme. Where the goods/inputs have been supplied after a delay the exporter shall be liable to pay fine for late delivery in accordance with the scale of fines as mentioned in the said Para. In such a situation the exporter shall be entitled to get automatic refund of fine charged on account of non- delivery as per Para 6.1 above.

13.3.13 The office of SBP BSC (Bank) will recover the fine for non-delivery in case the documentary evidence regarding the delivery of goods has not been furnished to them through the bank of the supplier in a period of 20 days from the due date of the refinance or the due date of delivery mentioned in the Contract, whichever is applicable.

^ Top

Part-C -Medium to Long Term Finance for Exports

14.1 This part of the Export Finance Scheme shall primarily envisage provision of finance from 12 months up to 7 ½ years to the manufacturing exporters or their authorized agents in Pakistan to promote export sales of locally manufactured machinery. For the purpose the term “Locally Manufactured Machinery” would include only those plants, machinery, equipment, transport equipment, cargo vessels, ships, fixtures and fittings which are to be used for industrial applications and which undergo processing in Pakistan subject to conditions mentioned in sub Para (a) to (d) of Para 13.3.1 of the Scheme.

14.2 As the manufacturing and then export of the LMM, as defined under the scheme, would require the manufacturing exporter to arrange for the working capital financing they shall be eligible for financing at both pre-shipment and post shipment stage. The facilities shall be disbursed in a way so as to enable them to manufacture the requisite LMM. However, the period between actual disbursement of the funds and shipment shall not exceed two years depending upon the quantum of loan and the period of financing as mentioned in Para 14.3 below. The agent of the exporters shall, however, be eligible for the facilities at post shipment stage only. The State Bank shall, however, prefer provisions of financing by banks under these arrangements to the manufacturing exporters.

14.2.1 This facility shall only be available from commercial banks that have been approved as Participating Financial Institutions (PFI) for the purpose of Scheme for Long Term Financing of Export Oriented Projects (LTF-EOP). Banks who have not been approved as a PFI for the said scheme and wish to provide financing under this part of EFS can approach Director Small & Medium Enterprises Department for their approval as a PFI. Their requests shall be considered in accordance with the parameters mentioned in LTF - EOP for the eligibility of the PFI.

14.2.2 For seeking prior approval for shipments on deferred payment basis for a period in excess of 180 days from the date of shipment, the approved PFI shall be required to submit to Small & Medium Enterprises Department certified copies of the documents at a) to d) below besides certifying that it has satisfied itself to the abilities of the exporter to execute the export order as also the arrangements of the exporter to secure the default and convertibility risk of the foreign buyers / importing country.

14.2.3 The amount of the facilities permissible under the scheme shall be worked out keeping in view (a) compulsory advance payment of 10 % of the value of the EC / ELC or actual advance payment received whichever is more, b) the deferred payment interest, charged by the exporter12 (in case the importer is not required to pay the deferred payment interest, the rate at which the facilities shall be provided to the exporter by the approved bank). The exporter shall, however, have to produce the following documents to enable the bank to consider its request for financing under the Scheme:

a) The original Export Contract (EC) supported by the Export Letter of Credit (ELC) containing among other details the schedule on which the export proceeds shall be realized;

b) Amendments, if any, made in the EC/ELC; c) The exporter's letter indicating the period for which finance is required and explaining reasons thereof; d) Exchange Proceeds Realization Certificate evidencing receipt of advance/down payment provided for in the EC/ELC;

e) Undertaking from the exporter & manufacturer, as per format attached at Annexure 7 to ship LMM as per the covenants of the EC/ELC and realization of the export proceeds, thereof, as per the deferred payment schedule;

f) Duly executed DP Note of the borrower (format attached at Annexure 8) in favor of the financing bank; g) Charge documents and security as considered appropriate by the approved financial institution.

14.2.4 The importer should also pay the deferred payment interest separately, as agreed to between the exporter and importer abroad and should be mentioned in the EC/ELC. In case the exporter has booked the deferred payment interest in the invoice value, the same should be mentioned specifically.

14.2.5 The deferred payment should bear guarantee of the Government or the Central Bank of the country concerned or any other International bank of repute operating in that country. Alternatively, the bank of international repute acceptable to the financing bank of the exporter should confirm the ELC. The exporter may also explore the

12 Consider as an exampleThen Financing permissible under the scheme is

(a) Invoice value = Rs.100, = (a-b)*discount factor

(b) Advance payment received = Rs 10, i.e. [(100*10%], = (100-10)*0.94

(c) Deferred payment interest = 6%.

possibility of obtaining insurance cover through some formal arrangements, acceptable to the financing bank. The State Bank would, however, not insist on fulfillment of this condition by a specified mode but would let the approved PFI to satisfy itself in this regard. The PFI shall be liable to invariably mention this fact in the application (as per Annexure 7) at the time of seeking refinance from the office of the SBP BSC (Bank), where the deferred period is not more than 180 days and to the Small & Medium Enterprises Department at the time of seeking prior permission in cases where the proceeds are required to be repatriated in a period exceeding 180 days. While seeking prior approval for grant of refinance for a period exceeding 180 days, the approved PFI shall also apprise the name of the office of the SBP BSC (Bank) from where it would like to obtain refinance, besides confirming that the appropriate authority of the bank has, in principle sanctioned the facility to the exporter, however, sanction letter has not been issued to the concerned exporter. Such requests should invariably be submitted to the Small & Medium Enterprises Department, State Bank of Pakistan by the branch of the bank, authorized to deal in foreign currency, routed through the Head Office of the bank/PFI.

14.2.6 As the exporter shall remain liable to pay the amount of finance availed from the bank, even in cases where the proceeds have not been realized, he is advised to secure his deferred payment risk adequately. It may also be noted that the repayment of the rupee liability (principal, mark up and fine for non shipment as also non realization of the proceeds) in Pakistan shall not absolve the exporter from realization of the export proceeds under the instructions of our Exchange Policy Department.

Period of financing

14.3.1 The period of facilities under these arrangements shall be linked to the quantum of the contract as per following details:

a) **For Invoice value of US $10 million and more:** The facilities shall be eligible for a maximum period of 7 ½ years, including the maximum pre-shipment period of one year. The exporter may also offer a maximum grace period of one year to the importer abroad after shipment. Thus, the Importer would be required to make payment of the value of exports in quarterly / half yearly installments within a maximum period of five years exclusive of a maximum grace period of one year after shipment. Accordingly, the exporter would be required to repay the facilities in not more than 10 equal half-yearly installments or 20 quarterly installments with a grace period not exceeding two years (one year at pre-shipment and one year at post shipment) from the date of availing the facilities.

b) **For Invoice value of one million to 10 million US $:** The facilities shall be available for a maximum period of 5 years, including the maximum pre-shipment period of six months. The exporter may also offer a maximum grace period of six month to the importer abroad after shipment. Thus, the exporter would be required to make payment of the value of exports in 16 equal quarterly or 8 equal half yearly installments within a maximum period of four years with a maximum grace period of six months after shipment, from the date of availing the facilities.

c) **For Invoice value of less than US $ one million:** The facilities shall be available for a maximum period of 3 years, including the maximum pre-shipment period of six months. The exporter may also offer a maximum grace period of six months to the importer abroad after shipment. Thus, the exporter would be required to repay the facilities in not more than four equal half-yearly installments or eight equal quarterly installments with a grace period not exceeding one year (six months at pre-shipment stage and six months after shipment) from the date of availing the facilities.

Grant of Refinance

14.4.1 Under Part-C of the Scheme, the concerned office of the SBP BSC (Bank) shall allow refinance to banks against funds provided by them to their borrower on case-to-case basis. The approved PFI after disbursing the facilities shall submit following documents to the concerned office of the SBP BSC (Bank) for grant of refinance: Certified copies of documents mentioned at sub Para a) to e) at Para-14.2.1 above; a) Application / Undertaking as per format attached at Annexure 7; b) Demand Promissory Note of the borrower in favor of the financing bank, filled on the prescribed format (at Annexure 8) as per 'f' at Para 14.2.1 above, and endorsed in favor of the State Bank of Pakistan;

c) Duly filled in scrutiny sheet on the prescribed form as per the format attached at Annexure 9. d) Certified copy of the prior clearance of the Small & Medium Enterprises Department in respect of the cases requiring prior clearance.

14.4.2 The period of refinance shall be in accordance with the period for which finance has been provided by the bank depending upon the value of the EC/ELC. The approved PFI shall ensure that the amount of refinance availed by it on case to case basis, does not exceed the amount of finance (principal) owed by its respective borrower.

14.4.3 There will be no facility of substitution, and the LMM shall have to be shipped to the original buyer(s). Thus, in case the exporter is unable to ship the goods in accordance with the shipment schedule as also terms of the EC/ELC (and its amendments) the exporter shall be liable to pay fine for non-shipment at the rate mentioned in Para 6.1.1 above, besides repayment of finance in full along with markup thereon. Where the goods/inputs have been shipped after a delay, and the shipment has been accepted for the purpose of payment in due course by the importer abroad, the exporter shall be liable to pay fine for late shipment in accordance with the scale of fines as mentioned in the Para referred to above. In such a situation the exporter shall be entitled to get automatic refund of fine charged on account of non-shipment, besides reinstatement of refinance through his bank, to which the refinance was originally allowed. However, the due date of refinance shall remain as per the deferred payment schedule reported to the Small & Medium Enterprises Department at the time of seeking prior approval. The office of the SBP BSC (Bank) shall be liable to pay refund only in case the fine for late shipment does not exceed the fine for non-shipment. However, in cases where fine for non-shipment falls below the fine for late delivery additional fine shall not be recovered.

14.5 **Rate of Refinance:** The rate of service charges in respect of the facilities extended by the banks for a period exceeding 180 days shall be linked with the market on 12 months T-Bills, 3 years or 5 years PIBs depending upon the tenure for which financing facilities are provided by the banks.

^ Top

ANNEXURES

Annex 1
Annex 2

Annex 3
Annex 4
Annex 5
Annex 6
Annex 7
Annex 8
Annex 9
Annex 10

^ Top