

MICROFINANCE DEPARTMENT
(Refinance Division)

FAQs relating to recent modifications in EFS

Q 1 Does the conveyed limit for current fiscal year comprise of both 70% refinancing to be obtained from SBP and 30% of banks own participation?

Ans. Banks can claim refinance upto 100% against their limit fixed by us for FY-2007-08. The 30% ratio of financing is over and above the said limit. For example if limit of a Bank is Rs.100 M, the treatment for refinance by SBP-BSC (Bank) office shall be as under:-

(Rs. in million)

Limit for refinance during 2007- 08:					Rs.100 million
Transaction	Loan Amount applied by exporter	Grant		Repayment	Outstanding
		Finance provided by own source @ EFS rate	Refinance from SBP		
(1)	(2)	(3)	(4)	(5)	(6)
Outstanding as on 30th June, 2007:					100
Repayment	-	-	-	20	80
Grant	10	3	7	-	87
Repayment	-	-	-	10	77
Grant	20	6	14	-	91
Grant	10	3	7	-	98
Repayment	-	-	-	10	88
Grant	20	8	12	-	100
Grant	10	10	-	-	100

Q 2 What would be the rate of mark-up on financing facility extended by the commercial banks under EFS using their own funds?

Ans. Commercial banks cannot charge mark-up to the eligible exporters in excess of the rate announced by SBP under Export Finance Scheme. Presently this rate has been fixed at 7.5% p.a.

Q 3 Is compliance to EFS regulations the only prerequisite for getting financing facilities from commercial banks under the Scheme?

Ans. The Financing facilities under the Scheme are subject to compliance to the requirements of the Scheme. However, as the credit risk is assumed by the financing bank, the exporter will also have to fulfill requirements of the lending policies of the financing banks and Prudential Regulations issued by the State Bank of Pakistan.

Q 4 What mechanism has been prescribed by the State Bank under the new procedure for grant of refinance to ensure that branches of commercial banks do not turn down the financing requests from exporters due to change in refinancing?

Ans. State Bank has mandated all field offices of its subsidiary SBP-Banking Services Corporation to seek monthly reports from commercial banks operating in their jurisdiction, containing exporter wise data to check the financing facility extended by them and to investigate/enquire into the specific reasons for a reduction in the facilities to a particular exporter.

Q 5 In case the commercial bank refuse grant of financing facilities under the scheme to a particular exporter on account of change in refinancing ratio, what remedy is available to the exporters.

Ans. The exporter can lodge a complaint giving details against the concerned bank to the Chief Manager of the area office of the SBP BSC or directly to the Director SME and Microfinance Department State Bank of Pakistan I. I. Chundrigar Road Karachi.

Q 6 Does modification in the refinancing mechanism require a change in Form "D" submitted by the banks as no column has been provided therein for the amount of refinance claimed by the bank.

Ans. No change is required. Banks will continue to mention full amount of the loan provided to the exporter and the refinance amount (70% of the amount of advance already provided by the bank) to be claimed in the said form.

Q 7 DP Notes drawn by the exporter in favor of banks for the amount of finance are endorsed in favor of SBP-BSC for the full amount. Whether the existing practice will be continued or two separate DP Notes one for 30% and the other for 70% of finance will be drawn by the exporters, the later one only to be endorsed by the bank in favor of SBP-BSC?

Ans. Existing practice shall continue, as the bank would continue to require the exporter to provide DP note for the full value of the amount of loan.

Q 8 When are exporters/Banks required to provide Form 'EP' attached to the SME&MFD Circular No. 3 of 31st July 2007?

Ans. This will be provided once the 180 days period of first loan granted under Part-II to a concerned exporter during 2007-08 is completed.

Q 9 Which rate of interest on financing provided by the banks under the EFS from its own source will apply?

Ans. The current rate viz 7.5%

Q 10 Banks have been sanctioned limits under the Scheme equivalent to their outstanding level as on 30th June 2007. What treatment shall be given to the amount of refinance availed and outstanding for a particular bank, in excess of the limit for 2007-08 on the date of issuance of revised instructions or upto the date given in the circular.

Ans. Excess over and above the limits avancements must be adjusted and regularized by 30-11-2007.

Q 11 What criteria would be followed to evaluate the performance of the borrower?

Ans. The performance of the exporters shall continue to be evaluated as per existing practice. However, to gauge the use of refinance facilities under EFS, the banks/exporters having availed Part-II facilities would be required to fill in Form-EP at the time of roll over of Part-II loan (attached with Circular) showing details that it has made shipments upto 70% of the average loan amount availed under Part-II This will be applicable on completion of 180 days of fresh refinance granted to banks for the new limits under Part-II fixed on the basis of EE-1 statement to be verified by end August 2008. The punitive

action in respect of exporters having failed to achieve 70% shipment threshold shall be advised once the exercise is completed. However their failure to meet this condition may impair their ability to borrow to the extent of full value of the limit till such time a punitive regime is finalized.

Q12 Can banks and SBP offices record the 70% of the Part-II limit of each exporter for FY 2007-08 as a reference for monitoring and usage of the funds provided under the scheme?

Ans. The overall limit of the exporters shall continue to be fixed as usual and the banks would be required to allow funds to such exporter as usual. The threshold of shipment evidence to the extent of 70% of the average funds availed during 6 months has been fixed to check the misuse of the limits. Both the exporters and the banks are requested to maintain a memorandum account of all the shipments made by the exporter concerned in respect of the eligible commodities as evidence to facilitate grant of facilities during the next 180 days. SBP office will ensure compliance to this threshold by collecting all evidences received from all banks used by the exporters in sending the shipping documents to the importers abroad, rather than only through the bank(s) which actually availed refinance for the exporter.

Q13 SBP Karachi allocates office wise limits to BSC offices in respect of EFS and LTF-EOP Scheme separately. What mechanism would be adopted in respect of LTF-EOP scheme regarding allocation of drawing limits for the year 2007-08 as well as maintenance of 70% refinancing conditions while granting fresh loans under the said scheme?

Ans. The question is not relevant, as presently limits under LTF-EOP Scheme for 2007-08 have not been sanctioned in favor of banks. As and when a decision is taken, stakeholders would be advised accordingly.

Q14 A bank has submitted loan application in which they have demanded refinance at 70% of the total finance which is Rs.3,559,500/-. How this amount shall be rounded off for the purpose of reporting to SBP through different statements?

Ans. The amount will be rounded off to the nearest rupees 1,000/-.

Q15 Whether bank will pass on 100% fine to SBP, recovered from exporter on account of non/short/delayed shipment or retain fine to the extent of financing from their own sources?

Ans. Banks will retain fine recovered from exporter on account of non/short/delayed shipment to the extent of financing made by them from their own sources. However, banks should first pass on the fine to SBP to the extent of amount of refinance involved therein. For example if an exporter availed export finance of Rs.200 million under EFS from a bank, who was granted refinance to the extent of Rs.140 million. In case the exporter subsequently fails to meet export performance as required under the Scheme, fine will be recovered from the exporter at the prescribed rate. However, the bank will immediately pass on the amount of fine to SBP pertaining to the amount of refinance of Rs.140 million, while retaining the amount of fine to the extent of financing of Rs.60 million made by them from their own sources. However exporter will be entitled to claim refund of this fine on the basis of the decision made by the State Bank under the refund procedure and the bank will not be allowed to retain the amount of fine, on any ground whatsoever, once the non performance by the exporter has been regularized by the State Bank while considering his request for refund of fine. This will also be applicable in

cases where the non performance by the exporter is to the extent of the share of financing or part thereof, provided by the commercial bank.

Q16 What will be the treatment of the repayments made by the exporter to the banks?

Ans. The repayments made by the exporter shall be used by the banks first towards repayment of the amount of refinance availed by them.

Q17 What rate of finance shall be charged by the bank on financing provided by it if exporters fail to repay the loan on expiry of 180 days period?

Ans. The bank will be free to charge its commercial rate of mark up from such exporters for the period exceeding 180 days. However the bank will not be entitled to charge fine for non performance in excess of the 180 days period.

Q18 What is the time frame until banks would be bound to restrict their exposure (comprising of 70:30 ratio) under EFS within the conveyed limit?

Ans. This ratio is for FY 2007-08. Guidelines for FY 2008-09 will be given while fixing of limit for FY-2008-09.

Q19 As per instructions incorporated in the Circular banks will be required to ensure that total outstanding refinance availed by them from SBP as on 30-6-2007 is reduced by 15% latest by 31-01 -2008, thus what would be then total EFS limit for a bank including 30% of funding from their own sources?

Ans. As explained in the table (mentioned in Ans. of FAQ No.1), EFS limit determines maximum amount that a bank can borrow from State Bank as refinance. The overall lending by the banks at 7.5% shall be increased only on the basis of the refinance availed and the amount disbursed by bank from its own sources at 7.5%. Also note that this gross amount has no cap. If the bank fails to maintain that ratio, i.e., if the ratio of advances of exports to net advances falls below the level of December 2006, SBP may consider punitive action the bank.

Q 20 Would it be possible for banks to allow more than 30% of the finance from their own sources under EFS in case available refinance limit with SBP stands fully choked at any given point in time and what would be the pricing on such financing?

Ans. Response is already available in FAQ No.9. However, the existing 7.5% of EFS rate will be applicable on such financing.
