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Impact of Export Facilitation on Pakistan's Export Performance

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Abstract: Pakistan provides export financing schemes to support exports. This study examines two main schemes: one offered by the State Bank of Pakistan (SBP) through commercial banks, and the other by the Federal Bureau of Revenue (FBR). The study evaluates the performance of these schemes from the perspectives of commercial banks (as private entities) and exporters (as beneficiaries). While large exporters improve their export performance by utilizing these schemes, the lengthy process and the time lag between production and delivery can hinder exporters' performance. The qualitative findings indicate that these export financing schemes mainly benefit large exporting firms, while medium and small enterprises are less likely to take advantage of them due to the complexities involved.

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Impact of Export Facilitation on Pakistan's Export Performance

1. Introduction

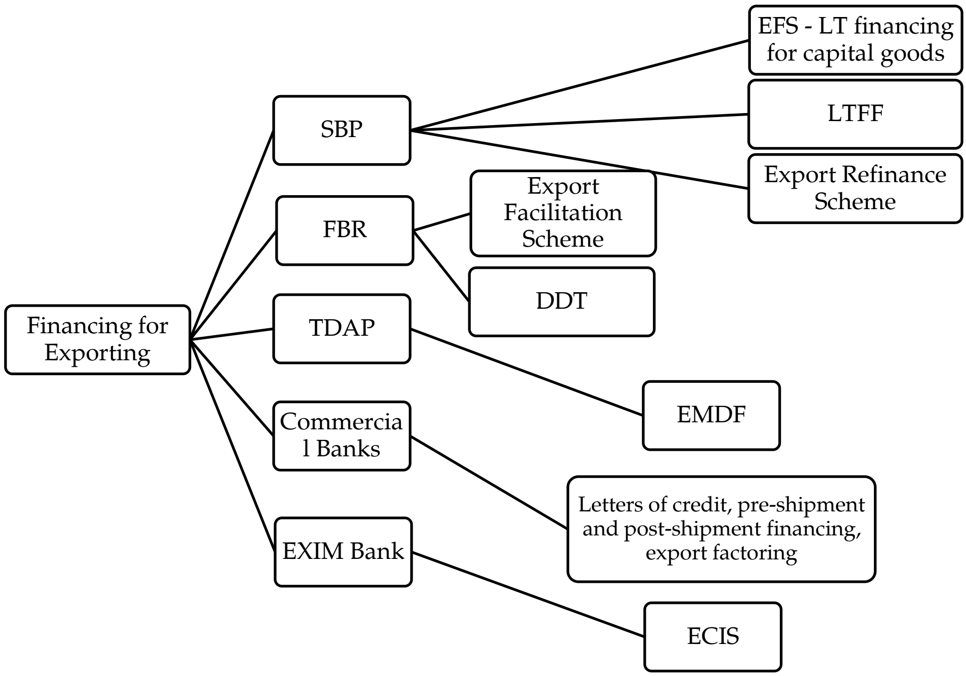
Export financing plays a crucial role in the growth of developing economies. Governments often offer export incentives to boost export earnings, enabling exporters to lower prices while maintaining net profits. These incentives have taken many forms over time, such as tax breaks, export financing programs, subsidies, and other initiatives to support exporters. While increasing market incentives to attract firms in the export sector can be justified, challenges associated with export incentives may sometimes outweigh their economic benefits, leading to distortions. [1]

Export finance programs, by promoting exports, have supported an important source of foreign exchange revenue in Pakistan. The Export Financing Scheme (EFS) was established in 1973. Brief financing arrangements are provided for exporters through financial institutions under a strategy for exporting all manufactured goods, mainly valuation products (SBP, 2019-20). Export financing in Pakistan is primarily managed through the State Bank of Pakistan (SBP), Federal Board of Revenue (FBR), Trade Development Authority of Pakistan (TDAP), commercial banks, and the Export-Import Bank (EXIM Bank).

The further breakdown reveals that SBP offers three primary financing schemes: EFS for capital goods[2], the Long Term Financing Facility (LTFF) for industrial projects, and the Export Refinance Scheme[3]. FBR offers two schemes: the Export Facilitation scheme[4] and the Duty Drawback of Taxes (DDT). TDAP offers Export Market Development Fund (EMDF). Moreover, commercial banks are offering various financing facilities on behalf of the SBP, including letters of credit, pre-shipment and post-shipment financing, and export factoring. EXIM Bank also offers the Export Credit Insurance Scheme (ECIS).

[1] Subsidized firms appear competitive but actually rely on government support to survive, preventing healthy competition and innovation.
[2] Long term financing for 10 years and grace period 2 years
[3] Short term financing at concessional rates
[4] Manufacturing Bond, the DTRE, and the Export-Oriented Schemes are merged in this scheme

Figure 1: Export Financing Channel and Ongoing Schemes in Pakistan



Source: Author's contribution based on information from secondary literature.
State Bank of Pakistan (SBP), Federal Board of Revenue (FBR), Trade Development Authority of Pakistan (TDAP), Export-Import bank (EXIM bank), Long-Term Financing Facility (LTFF), Duty Drawback of Taxes (DDT), Export Market Development Fund (EMDF), Export Credit Insurance Scheme (ECIS).

The aim of this research is to examine the financing facility to provide basic information and make operations understandable to exporters, while comparing the two main schemes offered by SBP and FBR. The SBP Export Financing scheme and the FBR Export Facilitation scheme are reviewed and compared, considering their scope, intended beneficiaries, paperwork required, time span, and procedures. In this regard, the study objectives are to review the Export Finance scheme of SBP, the role of commercial banks, and the Export Facilitation scheme of FBR; to compare the Export Financing scheme of SBP with the Export Facilitation scheme of FBR; to assess the effectiveness of current export financing schemes based on qualitative research methods (stakeholder interviews); and to analyze export financing schemes from the perspectives of commercial banks (as private entities) and exporters (as beneficiaries).

This study's main contribution is highlighting liquidity constraints and challenges faced by exporters in developing countries. These issues are recognized in international literature as barriers to improving access for Small Manufacturing Enterprises (SEs) and Medium Enterprises (MEs) to credit, removing obstacles, and boosting export competitiveness. [5]

Table 1: Pakistan's Export Rebate (Rs in Billion)

Group	Total Rebate	Rebate Growth Rate	Variation
2017-18	12.70	0.1027	-
2018-19	14.01	0.7428	Increase
2019-20	24.39	-0.5515	Decrease
2020-21	10.94	1.7948	Increase
2021-22	30.58		

Source: FBR year book.

All Pakistan export rebate (Rs in millions) shows growth each year except for a decrease during 2020-21, which was the pandemic period (Table 1).[6]

The study is structured as follows: Section 2 covers the literature review; Section 3 discusses the regulatory framework; Section 4 outlines the methodology; Section 5 presents the findings and discussion; Section 6 provides the conclusion, and Section 7 contains recommendations.

2. Literature Review

This section reviews the literature focusing on Pakistan's export outlook and the analysis of various financing schemes under study. Export credit financing serves as a vital trade policy tool. It aims to reduce financial risks for exporters, support market access, and boost competitiveness in global markets. In 2000, the Asian Development Bank established the Pakistan Export Finance Guarantee Agency (PEFGA), but the collapse and eventual shutdown of the privately owned and operated PEFGA have been linked to insufficient government involvement and lack of sustained commitment (ADB, 2014). This strategy aligns with promoting economic development through a dynamic trade policy framework.

Some studies (Adil and Nazir, 2023; Sajjad et al., 2020; SDPI 2023) emphasize that export financing in Pakistan disproportionately benefits

[5] Annual sales turnover of a Small Manufacturing Enterprise (SE) is up to PKR 150 million and of Medium Enterprises (ME) is from PKR 150 Million to PKR 800 million.

[6] Data of textile, leather, carpet/handicrafts, sports goods, surgical goods, plaster/rubber goods, confectionary, and other miscellaneous goods. Detailed data also indicates there are few items in the export basket.

large firms, with limited impact on overall export growth. The schemes by SBP and FBR help large exporters meet targets, while SMEs face barriers such as bureaucratic delays and lack of transparency, which limit their participation. Complementary findings from a study on financial inclusion and export performance by (Adil and Nazir, 2023) reveal that firms with greater access to formal finance—typically larger or listed firms—show stronger export performance, underscoring the financing gap faced by SMEs.

Sector-specific evidence further emphasizes this financing disparity. For instance, a study on SMEs in Sialkot's sports goods sector demonstrates that access to finance significantly contributes to improved firm performance and export potential, whereas firms lacking financial access struggle to scale or upgrade production (Sajjad et al., 2020). Additionally, research on institutional quality and SME trade performance suggests that limited access to formal financing, coupled with complex regulatory requirements, acts as a major constraint on export growth for smaller firms in Pakistan (Khan et al., 2022). Collectively, these studies point to a systemic imbalance in the effectiveness of export financing schemes, which tend to favor large exporters while marginalizing SMEs due to structural and procedural barriers.

Similarly, another study by Shah et al. (2011) highlights the untapped potential of SMEs in contributing to Pakistan's export performance. A survey of 300 SMEs in rural Sindh found that while SMEs contribute nearly 45% to the local economy, this share could grow significantly if marketing support and export facilitation services were improved. The study further reveals that SMEs typically engage in indirect exporting through trade networks and operate within labor-intensive sub-sectors where competitive advantage is largely wage-based. These findings emphasize the importance of tailored government support and market access initiatives to improve SME survival and export growth.

According to SDPI (2023), industry insights suggest that export facilitation schemes tend to disproportionately benefit traditional and well-established exporters. These exporting firms are better equipped to bear the higher costs of information, networking, and learning involved in accessing such schemes. In contrast, small or new exporting firms, especially those that do not import, often face significant barriers to entry and have limited access to these support mechanisms, raising concerns about the inclusivity and reach of existing export promotion efforts.

Furthermore, Ahmad (2015) noted that export finance schemes in Pakistan usually involve providing concessional credit to exporters against firm export orders or letters of credit, typically for a maximum of 180 days. The main incentive in this system is the interest rate difference between the market rate and the subsidized rate offered through the export finance facility. However, banks are limited from extending financing beyond the amount specified in the export contract or letter of credit. The study also compared regional export incentive structures, showing that Pakistan's current framework is much less liberal compared to neighboring economies like India and Bangladesh. Notably, Bangladesh has developed a more competitive export incentive system, which contributes to its stronger export performance. Export competitiveness is affected by various factors including free trade agreements, infrastructure quality, and broader trade promotion policies. The structure of the textiles industry in these countries highlights the need for Pakistan to reform its support for value-added textile exports. The study also suggested that targeted export incentives could be a more effective policy tool than across-the-board exchange rate devaluations, which can unfairly burden low-income households by raising the cost of essential imports. Reforming Pakistan's export incentive system might involve consolidating scattered schemes into a more unified framework, even if this involves certain transaction costs.

In conclusion, the literature emphasizes that Pakistan's export incentive schemes are limited in scope, often benefiting established exporters while omitting smaller firms. When compared to regional peers like Bangladesh, Pakistan's support measures are less competitive. Reforming these schemes with more inclusive, targeted, and streamlined incentives is crucial to improving Pakistan's export performance.

2.1 *Theoretical background*

Export growth depends on firm productivity, market access, and the ability to overcome entry barriers. Classical trade theory stresses comparative advantage, while new models, like Melitz (2003), show that only the most productive firms can bear the fixed costs of exporting. In this context, export financing helps firms by easing liquidity limits and allowing them to invest in production, compliance, and quality improvements.

Endogenous growth theory also indicates that access to finance boosts innovation and long-term competitiveness. In countries like Pakistan, limited access to formal finance—especially for SMEs—limits broader participation in export markets. Therefore, the effectiveness of export financing relies not only on its availability but also on its accessibility, firm capacity, and institutional support.

2.2 Exports outlook

The review further highlights Pakistan's export outlook along with an assessment of current financing and facilitation offers for exporters.

Pakistan's exports have shown a mixed trend in recent years. According to the Pakistan Bureau of Statistics (PBS), total exports during FY2022 were $31,782 million, compared to $25,304 million during the same period in FY2021, indicating a 25.60% increase. The highest growth in FY2022 was observed in June, with exports around $2,911 million (PBS, 2023).

Pakistan's export performance has been influenced by various factors, including global economic conditions, domestic energy shortages, security issues, and trade barriers. Despite facing many challenges, Pakistan continues to work on diversifying its export base and exploring new markets. The government has implemented several initiatives to support exporters, such as the Prime Minister's Export Package. [7] Additionally, it has been negotiating Free Trade Agreements (FTAs) with multiple countries to expand market access for Pakistani exporters.

The diversification of products and markets continued to be a key part of the second STPF for 2012-2015. This strategic policy exempted several non-traditional industries from capital expenditure and export financing, such as leather, fish, sporting goods, cutlery, electrical fans, and medical items. Some incentives were provided to motivate businesses to export goods. Mineral and agricultural products were prioritized for small businesses in low-income areas of Pakistan, including Khyber Pakhtunkhwa, Gilgit, and Baluchistan.

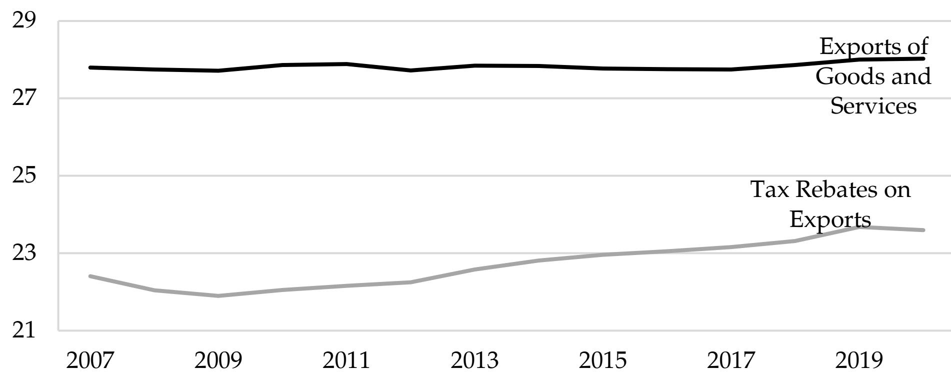
Over the past years, the STPF aimed to boost exports through trade policy initiatives (TDAP, 2024). There was a lot of emphasis on non-traditional businesses like medication, fishing, leather, and surgical equipment. When importing new technology to improve product quality, businesses are entitled to up to 50% financial assistance, as well as a 50%

[7] Announced package for industry to attract investment.

markup on export activities in the mentioned industries. Small and medium-sized businesses were to be prioritized, according to the policy.

Trade talks with Korea, Jordan, and Kazakhstan were also started to access more markets. The same few non-traditional commodities received incentives, with a focus on regional trade. These policy measures seemed beneficial for export diversification (Siddiqui, 2020). Pakistan's exports were projected to reach $22.7 billion in the 2021 fiscal year. Exports have since grown along with global trade. Pakistan's trade balance improved in February 2023-24, decreasing by 18.2% compared to February 2022-23. This positive change is linked to a sharp rise in exports and a moderate increase in imports. According to pre-PBS Customs data released by PRAL, exports rose by 30% to USD 2.575 billion in February 2023-24, up from USD 1.984 billion in February 2022-23. [8]

Figure 2: Tax Rebates on Exports and exports of goods and services



Source: State Bank of Pakistan.

Figure 2 above shows two different series of "exports of goods and services" and "tax rebate on exports." Although the tax rebate is low, its gradual increase over time has had only a minor impact on exports with tax rebates. There has been a slight rise in the export tax rebate since 2009, but it has had only a small effect on the country's exports. Export growth in Pakistan is not very strong, and government policies, subsidies, and export financing schemes have played only a minor role in boosting exports. This is also confirmed by SDPI (2023), which states that export gains are insufficient for exporters who utilize financing schemes.

[8] https://pid.gov.pk/site/press_detail/24631

2.3 *State Bank of Pakistan (SBP) as a Provider of Financial Support*

The Export Financing Program is a tool to support the country's exports. To boost overall exports, the SBP offers this financing option to exporters. The SBP plays a key role in promoting international trade by providing exporters with financing and other support. The SBP has introduced several schemes to encourage exports and increase foreign exchange earnings, including the Export Financing Scheme, Long-Term Financing Facility, and Export Refinance Scheme. Financial institutions also offer export funding to exporters both before and after shipping.

The Export Financing Scheme of SBP is divided into two parts: Part I – "transaction-based facility" and Part II – "performance-based facility." The scheme is beneficial because of the government's commitment to supporting and growing export-oriented businesses. The markup rate is linked to the SBP policy rate. If there is any change in the policy rate, the markup rate for EFS is automatically adjusted to maintain a 3% difference between the policy rate and the EFS rate (SBP website).[9]

2.3.1 Part I- EFS - Transaction-Based Facility by SBP

Transaction-based facilities are short-term financing options provided by the SBP to meet the temporary liquidity needs of commercial banks. They are used to manage short-term cash flow fluctuations and are designed to help banks maintain sufficient liquidity levels for their daily operations. Under this facility, a commercial bank can borrow funds from the SBP for a short period, such as overnight or a few days. The loan amount depends on the collateral provided by the bank, such as government securities, bills of exchange, and other financial instruments. The interest rate for these facilities is usually higher[10] than the SBP's policy rate, which is the rate at which the central bank lends to commercial banks for longer-term periods. Commercial lenders also offer export funding to exporters on a case-by-case basis, supported by secure export credit transactions. To demonstrate performance, exporters must submit export proceeds equivalent to the loan amount. The maximum maturity of this facility is 180 days, with a 90-day rollover option if the export performance reaches 117% of the loan amount (2012). [11]

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[9] https://www.sbp.org.pk/incen/Export.asp

[10] The higher interest rate reflects the short-term nature of the loan and the greater risk associated with providing temporary financing.

[11] https://www.sbp.org.pk/incen/BookGuidlines-EFS.pdf

2.3.2 Part-II EFS - Performance-Based facility by SBP

Performance-based facilities are short-term financing options provided by SBP to commercial banks based on their performance against specific criteria. These facilities aim to motivate banks to improve their performance, such as increasing lending to priority sectors and enhancing risk management practices. Under this program, a commercial bank can borrow funds from the SBP at a reduced interest rate if it meets certain performance targets. The interest rate for performance-based facilities is usually lower than the SBP's policy rate, which is the rate the central bank charges for long-term loans to commercial banks. The lower interest rate reflects the fact that banks are providing incentives to their borrowers.

In a performance-based facility, an exporter's access to revolving export financing is equal to fifty percent of export revenues from the shipment of authorized items in the previous fiscal year. The exporter's performance is evaluated annually on a daily product basis against the total loan collected during the fiscal year. Except for exports funded under Part I of the scheme, the exporter must generate export earnings from eligible items during the relevant period. The maximum loan term under Part II of the program is also 180 days, which can be extended by an additional 180 days if 70 percent of the shipment for a loan used within the initial 180 days is shown (SBP, 2012).

2.4 Federal Board of Revenue (FBR) Export Facilitation Scheme 2021

The Federal Board of Revenue has announced the updated Export Facilitation Scheme 2021,[12] effective from August 14, 2021. The Federal Government adopted this new Export Facilitation Scheme as part of the Finance Act 2021. It runs parallel to other initiatives[13] such as the Manufacturing Bond, the DTRE, and the Export-Oriented Schemes for two years, after which these other initiatives are replaced by the new scheme. The scheme aims to assist exporters (manufacturers-cum-exporters, commercial exporters, indirect exporters), vendors, export houses, and international toll manufacturers. Users of this program must be authorized by the Collector of Customs and the Director General of the Input-Output

[12] SRO-957 (1)/2021 was issued to announce this scheme.

[13] Schemes for exporters facilitation offered by FBR: Manufacturing Bond Rules (Warehousing) - Chapter XV of Customs Rule 2001-SRO
450 (I)/2001; Export Oriented Units (EOUs) and Small and Medium Enterprises (SMEs) Rules - S.R.O. 327(I)/2008; Duty and Tax Remission for Exports (DTRE) - Sub-Chapter 7 of Chapter – XII of Customs Rule 2001- SRO 450(I)/2001; Temporary Importation -S.R.O. 492(I)/2009.

Coefficient Organization (IOCO). A positive aspect is that this initiative has made international contract manufacturing feasible in Pakistan. Applicants, users, and exporters must submit essential documentation and security. By eliminating sales tax refunds and duty disadvantages for scheme participants, the Export Facilitation Scheme 2021 is expected to reduce corporate expenses, streamline tax compliance, boost business growth, lessen financial difficulties for exporters, and thereby stimulate exports. The scheme is computerized and operated under PSW[14] (TDAP, 2021; FBR website).

Key features of the FBR facilitation scheme are: minimized required certification, which motivates SMEs; it includes the rules of the old schemes along with new features; online application process and simplified system; EFS has no fixed targets,[15] but the time utilization of the scheme is fixed; audits and post-clearance compliance checks (TDAP, 2021).

2.5 Commercial Banks' Role in Exports Financing Schemes

Commercial banks play a key role in promoting exports by offering exporters financing and other services. Many facilities have been provided by these banks to support exporters. First, the Export Credit Guarantee Scheme shields banks from political and commercial risks associated with export financing. This enables banks to lend to exporters while avoiding the risk of nonpayment by foreign buyers. Second, commercial banks provide exporters with letter of credit[16] (LC) facilities, which are used as a payment method in international trade transactions. Additionally, commercial banks offer trade financing services such as pre-shipment, post-shipment financing, and export bill discounting.

The SBP has launched several initiatives aimed at increasing financial inclusion in Pakistan, such as the National Financial Inclusion Strategy, branchless banking regulations, and the Financial Literacy Program. The SBP's goal in promoting financial inclusion is to expand access to financial services, which supports economic growth. The SBP is ultimately responsible for the Export Financing Program, including its

[14] PSW -a digital trade platform that allows parties to lodge standard information and documents with a single-entry point. Includes all import, export, and transit-related regulatory issues).

[15] Allows two different venders 1) direct venters, and 2) manufacturer.

[16] LC is a bank guarantee that the exporter will pay once the goods have been shipped and the required documents have been submitted.

policy formulation and monitoring process. Each year, the SBP limits banks' capacity to refinance and conducts regular examinations. SBP and Banking Services Corporation (BSC) field offices[17] nationwide perform on-site audits of bank refinancing activities. Banks make payments and demand repayment from SBP BSC field offices by adhering to SBP regulations.

The SBP supports commercial banks in managing liquidity through various channels, including open market operations, standing facilities, and rediscounting. This helps banks meet the funding needs of businesses and households, thereby stimulating economic activity. The field offices of SBP BSC handle operational aspects of EFS. Under the EFS, after distributing the loan to the exporter, commercial banks approach the BSC field office for reimbursement. Commercial banks charge borrowers an extra 3 percent for the EFS. They can also access SBP refinancing for other exporters (at 2%) and for SMEs (at 1%). Additionally, banks are allowed to charge a maximum of 1% on loans to all other exporters and 2% on loans to SMEs. Aside from products on the scheme's negative list, EFS funding is available for all major Pakistani value-added exports. Therefore, any exporter meeting a bank's lending criteria can obtain financing for eligible products (SBP, 2012).

3. Regulatory Structure

3.1 Government Interventions:

This section explains the role of the government and the regulatory structure of financing in Pakistan. The country's exports are primarily overseen by the Ministry of Commerce.

The government can offer exporters insurance and guarantee programs in addition to direct concessionary loans. Since the 1980s, export credit guarantees have replaced direct subsidized financing in wealthy countries, thanks to the OECD's insistence. Meanwhile, subsidized export loans still remain common in developing countries. It is worth considering whether subsidized loans for short- and long-term working capital needs could boost export performance (Defever et al., 2024). In Pakistan, the government is involved through the SBP and FBR schemes.

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[17] 13 field offices in Islamabad, Lahore, Karachi, Peshawar, Faisalabad, Gujranwala, Hyderabad, Multan, Muzaffarabad, Quetta, Rawalpindi, Sialkot and Sukkur.

3.2 Regulation of Export Financing Scheme by SBP

In Pakistan, export financing schemes are overseen by the SBP, which provides guidelines for export financing facilities for exporters. The EFS aims to help exporters secure funding to grow their export businesses. The scheme includes a variety of export financing options (SBP, 2012), such as:

- pre-shipment financing
- post-shipment financing
- export refinance
- export bill discounting

The eligibility criteria are determined by SBP for exporters to access financing facilities based on meeting certain performance standards.

The SBP has established monitoring arrangements to assess the utilization of export financing facilities (SBP,2006) to ensure that the rules and regulations are followed:

- Periodic audits
- BSC field office visit
- Report on the utilization of export financing facilities
- Performance of export portfolio

3.3 Regulation of Export Facilitation Scheme by FBR

The export facilitation scheme in Pakistan is a new scheme. It is regulated by the FBR, which is responsible for formulating/implementing policies and regulations related to trade facilitation and financing (including export facilitation schemes).

These schemes provide:

- financing to exporters at concessional rates
- guidelines for exporters to avail the facility

Exporters must meet certain criteria to be eligible for the facility which may include:

- Export performance
- Compliance with tax laws
- Meeting the timeline for exports
- Other factors related to the export process

To ensure compliance with the law and regulations, the FBR conducts audits and investigations of exporters participating in these schemes (FBR website).[18]

After reviewing export financing schemes by SBP, the Export Facilitating Scheme of FBR, LTFF, and exports of Pakistan, this research moves toward its second and third objectives: comparing the export financing scheme of SBP with the export facilitating scheme of FBR, and evaluating the export financing schemes from the perspectives of commercial banks (as private entities) and exporters (as beneficiaries).

4. Methodology

This study employs a qualitative research approach, combined with secondary data analysis, to assess the effectiveness and accessibility of export financing programs in Pakistan. A case-based, interpretive method was used to understand the perspectives of key stakeholders, including exporters and regulatory agencies.[19]

This study hypothesizes that export financing schemes in Pakistan primarily benefit large exporting firms, as they have better access to financial institutions and can navigate complex procedures more easily. In contrast, small and medium-sized enterprises (SMEs) face obstacles such as procedural constraints, lack of awareness, and limited institutional support. As a result, these schemes have minimal impact on their export performance.

The study began with a comprehensive review and exploration of the literature, including reports and policy documents related to Pakistan's export finance. Addit discussed the current status and policy framework of export finance programs in Pakistan. To achieve its goal, the study

[18] https://fbr.gov.pk/fbr-issues-draft-rules-for-new-export-facilitation-scheme-2021/163069
[19] Commercial Banks, State Bank of Pakistan, FBR

reviews and compares the performance of the two finance schemes offered by the SBP and FBR.

Target Respondents: Discussions were held with key stakeholders such as policymakers (SBP, FBR), facilitators (commercial banks), and business groups (exporters). Exporters from various sectors — including rice, fruits, vegetables, pharmaceuticals, sports goods & apparel, textiles, gems & jewelry, handicrafts, and leather — were also contacted.

Thematic Analysis: The study employed thematic analysis to explore stakeholders' perspectives and gain insights into their views on FBR policies, obstacles, and SBP policymaking related to export financing schemes. Stakeholders were asked about FBR export financing policies and challenges, as well as SBP export financing policymaking, to investigate and better understand export financing schemes. Data were collected from FBR, SBP, exporters, and commercial banks. The method used to analyze each factor in this study is outlined in the following points.

- Review of the export financing scheme in Pakistan operated by SBP and the export facilitation scheme managed by FBR.
- Comparison of "SBP Export Financing Scheme" and "FBR Export Facilitation Scheme'
- Export outlook in the context of financing, regulations, and facilitation of export financing schemes in Pakistan: (secondary information from websites, document analysis, such as export annual reports)
- Discussions and interviews with stakeholders—including insights from SBP, FBR, commercial banks, exporters using the facility, exporters not using the facility, and Pakistan Business Council (PBC) representatives.

Sample Size and Sample Selection

The two export finance programs launched by the FBR and SBP were selected. Purposive sampling was used to identify knowledgeable participants actively involved in export financing operations. Interviewees included representatives from the SBP, FBR, commercial banks, and exporters. Exporters who are not utilizing the schemes were also interviewed to understand their challenges. The targeted respondents from the SBP, FBR, and commercial banks were contacted through personal visits, phone calls, key informant interviews, and meetings with key stakeholders. For contacting exporters, requests were made to commercial banks that identified some exporters (who availed themselves of EFS). Through the chamber of commerce, we identified a few exporters who have never used any EFS, and they were included in the sample to explore the reasons for not using the financing schemes.

Data Collection and Analysis

The analysis is based on three dimensions: secondary information and analysis; comparative analysis of the SBP versus FBR scheme; and findings from the interviews. In addition to primary data, secondary sources such as policy documents, reports, and statistical bulletins published by SBP and FBR were reviewed. Official websites and publicly available datasets were also consulted to complement and triangulate the interview findings. Open-ended and discussion-based questions were used to gather interview data from various stakeholders. Each questionnaire was tailored to the stakeholder's specific role and functions within the export finance programs. The questions directed to authorities—such as policymakers, facilitators of export finance schemes, and exporters—were divided into three groups: SBP/FBR, commercial banks, and exporters.[20] The themes of the export financing scheme questionnaires included the SBP's role, challenges faced by the SBP, FBR, and commercial banks, as well as exporters' perspectives on future challenges linked to export financing schemes, and awareness and utilization of these schemes. The interview data were analyzed using a "thematic analysis." Ethical considerations were addressed during the interview process and data analysis, and the identities of respondents were kept anonymous.

5. Findings and Discussion

This section covers two dimensions: 1) comparison of SBP vs FBR schemes, and 2) findings from the interviews.

5.1 Comparative Analysis of FBR vs SBP scheme

Table 3 below compares both the FBR facilitation scheme and the SBP financing scheme. It highlights some differences and similarities. The FBR's Export Facilitation Program mainly aims to lower the costs for exporters by allowing them to import machinery, raw materials, and other

[20] Questions from SBP and FBR were similar but different for commercial banks and exporters .

inputs duty-free. The SBP's financing schemes, such as the Export Finance Scheme and the Long-Term Financing Facility, are designed to provide financial support to exporters, thereby boosting export competitiveness, diversifying exports, and growing export-oriented sectors. Both the FBR and SBP funding schemes aim to improve Pakistan's export performance. The FBR program has reduced the cost of doing business for exporters, while the SBP's financing schemes are beneficial for expanding export-oriented sectors.

Table 2: Comparative Analysis of FBR, SBP Financing Schemes (Part I and II)

Themes	FBR scheme features	SBP scheme features	Difference
Assessment Criteria for Exporter /exporting Firm	• Examine the exporter's previous records of two years before making any loan • Examine firm's export contract	• Scheme operates in two parts: Part I & part II. • **Part 1:** Pre shipment and post shipment phase against export contract. • Exporter has to show export performance equal to loan amount. • Before extending loan, they check the exporter's past performance. • Exporters must show a "twofold" increase in shipments (Annually). • Exporters are allowed to take out another 180-day loan if they prefer. • **Part II**: exporters get export finance- limit equal to 50% of exports of previous year • Exporters must show two times export performance	• SBP scheme needs twofold annual increase in shipment.
Process of Financing /Regulations	• FBR "provide the financing scheme to exporters directly". • New exporters can apply.	• Financing is "provided through banks". • Commercial banks rely on SBP to provide finance.	• FBR scheme finances exporters directly and SBP financing is provided to

Themes	FBR scheme features	SBP scheme features	Difference
			exporters through banks. • FBR scheme provides facility to new exporters if the exporter has export contract
Schemes Performance	• Growth in exports is not observed. • This scheme covers a wide range and provides incentives (duty drawbacks.	• Export finance programs are good for encouraging exports. • Exporters trust this scheme due to the process carried by commercial banks. • Offered for value added goods • Offered for some export of services	
Impact on Export Performance	• Export of finished goods is strongly recommended to expand Pakistan's export industry. • Positive impact on exporters as the scheme offers several incentives	• SBP provides exporters with financing packages. • Based on previous export growth, monitoring is executed. • Positive impact on exporters' performance.	
Policy Role/Implementation/Regulation	• To increase exports in volume • Increase the country's exports by putting policies in place that reward exporters. • Online quick processing	• To increase national exports by giving the incentives for exporters. • Regulation is done by SBP and commercial banks	
Tax Imposition	• Duty-Free • Taxes are exempted in scheme by certain conditions	Old: 3% Mark-up Rate • 1% Banks • 2% SBP Current: 4.5% Markup rate	No duty on FBR scheme while SBP scheme has a markup rate
Time Framework	• 180 days	Part I: • 180 days-rollover 90 days • If rollover needed for 90 more days then exporter has to show 117% export performance. Part II:	

Themes	FBR scheme features	SBP scheme features	Difference
		• Exporters entitle for export finance limit equal to 50% • Exporters required to show 2 times export performance annually[21] • 180 days rolled over for more days (if at least 70% shipment of loan gained in initial 180 days)	
Targets of EFS	• Raise the volume of exports • Facilitating exporter • Simplification of procedure • Economic growth	• Raising exports • Addressing exporter credit needs • Proper checks and collaterals • Economic growth	
Who can avail facility	• Manufacturer cum exporter • Manufacturer • Commercial exporter • Indirect exporter • Common export house • International toll manufacturer	• Direct exporters • Indirect exporters	• FBR scheme covers broad range of exporters • SBP scheme selects carefully from direct and indirect exporters
Sectors availing facility	• Textile, cooking oil, spices, surgical goods, rice, leather, sports, carpets, footwear, engineering goods, metal products, etc.	• Textile, surgical goods, rice, leather etc. • Goods in negative list are not considered.	• SBP scheme is covering big exporters of capital goods. • FBR scheme has tried to cover a wide range of products and exporting firms

Source: Based on stakeholder's views, State Bank of Pakistan (2012), Trade and Development Authority of Pakistan (2020), Federal Board of Revenue scheme information.

The comparison of the two schemes shows some similarities in both, such as examining the exporter's previous records before issuing another loan, exempting the exporter from paying duty, and providing incentives. The time frame is 180 days, and the sectors availing the subsidy are mainly textiles, surgical goods, rice, leather, cooking oil, spices, and others. However, differences include that the FBR scheme requires exporters to make 'triple' shipments in the year following the facilitation scheme, while the SBP scheme requires a twofold increase in shipments in the coming year.

[21] For eligible commodities under the scheme

The FBR scheme finances exporters directly, whereas SBP financing is provided through banks. Additionally, no duty is payable under the FBR scheme, whereas the SBP scheme imposes a 3% markup rate.

5.2 *Interview insights on SBP Financing & FBR Facilitation Scheme*

The information obtained from focal persons in the FBR and SBP departments is shown in Tables 2 and 3. Open-ended questions and discussions were conducted to gather information. Secondary data was also collected. The significance of the stakeholders' viewpoints, including financial agencies like the FBR, SBP, exporters, and other commercial banks, has been considered in the analysis.

Table 3: Exporters' view (SBP financing scheme)

Themes	
Criteria Assessment	SBP examines the previous performance of the exporter before making another loan. Facility available to direct exporters (including commercial exporters & trading companies) & indirect exporters (manufacturers)
Financing Limit	The exporter is given "up to ten lacs" (10 lacs=PKR 1 million) that can be used for 180 days.
Assessment criteria for giving the next loan	Exporters must "double" their shipments in the next year. The loan has a utility limit of 180 days, although exporters can take it again if they need.
Time Duration of availing EFS	For 180 days, direct exporters can avail the financing A rollover option is available for an additional 90 days (the maximum financing available 270 days).
Monitoring of Exporter on availing EFS	SBP provides loans to exporters, which help raising the country's total exports. Maximum duration of loan is "ten years".
Tenure of Financing Scheme	The majority of loan related meetings are conducted in SBP offices
Loan Disbursement decisions	in Karachi, Faisalabad, and Lahore. If exporters fail to fulfil the deadline, they will be charged per day.
Penalty on exporter if deadline not met	SBP makes the loan available to other banks. They do not offer private loans to exporters. In fact, the commercial banks are involved in making these loans. Exporters are charged through banks if they are penalized.
Post EFS achievements	Revenue generated through exports Employment opportunities in a country by promoting export-oriented and export-related enterprises Achieving optimum utilization of resources by the increasing production
Policy implementation Performance of EFS	SBP tries to properly implement its policies. It gives incentives to the exporters, thus increasing Pakistan's export levels.

Themes	
Impact of EFS on Export	An increase in export leads to more participation in industries thus enhancing the level of employment/production.
	Export marketing plan is positively related to product and export-market features

Source: Exporters interviews and secondary information collection.

Table 4: Exporters' view (FBR facilitation schemes)

Themes	Informant Key Points
Policy Role	Main role is to increase revenue over time.
	The FBR's role is to provide exporter duty-free financing.
Schemes Performance Monitoring	Supports "complete product export" not the raw material export (export of commodities - surgical, leather, textile, etc.)
Policy Regulation/ Implementation	As the export rate grows, so does Pakistan's foreign exchange rate, lowering the budget deficit.
Impact of Exports	Enhance exports and increases the involvement of industries, hence increasing employment.
	Offer simple procedures (no duty)
	Exemption from sales tax on exported goods
	Refund process is easy and quick
	Low level of output due to lack of advanced technology, fewer resources; difficulty competing in the free market and failure to meet deadlines.
Government intervention	The FBR implements policies by providing additional incentives to exporters, hence improving national export levels. Luxuries are prohibited.
Public and Private Sector	Exports of completed goods should be encouraged. There is a need to reduce production costs in export industry.
	The government should establish institutes of training in advanced technology, thereby improving product quality. Involve private sector to train workforce.
	The government must provide the basic necessities to the industry.
	The private sector plays a major role in national exports.
Exporters view	The scheme has lowered the export costs as they get claimed finances.
	Competing in foreign markets is possible now.
	Easy online procedure, to take advantage of the scheme

Source: Based on Interviews and secondary information collection.

Exporters and industry experts had mixed reactions (Table 3 and Table 4) to the SBP financing and FBR facilitation programs. Large exporters supported reducing their costs and increasing their competitiveness in foreign markets. They praised the online application process, which has made it easier for them to benefit from the scheme. Meanwhile, medium and small exporters criticized the initiative for its limited reach and impact. Their view is that the system only allows duty-free imports of machinery, raw materials, and other inputs for six months, which may not be enough to significantly improve export performance. Additionally, small exporters reported delays and difficulties in obtaining necessary licenses, certificates, and completing online procedures to access the scheme's benefits.

Nevertheless, despite these complaints, the FBR has continued supporting the export industry through various programs, including

- tax breaks
- facilitation of export-oriented firms
- trade liberalization advocacy

Other initiatives: The government also announced plans to introduce new financing programs, such as the Export Credit Guarantee Plan (Export Credit Insurance Scheme), to encourage export growth in Pakistan. Export Credit Insurance Scheme is a major initiative to support and promote exports. The EXIM Bank is responsible for overseeing the program that offers exporters insurance against the commercial and political risks related to exporting.

Table 5: Exporters not Availing Export Financing EFS-SBP

Themes	Key Informants (Exporters)
Challenges	• Exporters who never availed this facility showed a lack of awareness of financing schemes. • Exporters who were aware of this facility but never used it fear too much documentation or the complexity of the system. • Large industries avail such schemes as they have finances, market power and they have already established systems; they don't face problems. Medium term and SMEs don't have an opportunity to avail themselves of the schemes. • Commercial banks have a set criterion for exporting firms. Sometimes they refuse medium scale and small scale firms. • Trust and access issues. Banks demand collateral and only trust large exporters/companies. • Trust issue also on the exporters' side. Banks loans may create problems if we need some time to grow our exports. • Exporters don't like to take loans from banks; rather they obtain financing from family members or friends. • Small number of exporters avail pre-shipment and post-shipment financing schemes.

Source: Exporter's interviews.

Summarizing the responses of exporters mentioned in Table 5, it is evident that large exporters primarily use these financing schemes. In contrast, medium and small exporters are either hesitant to use the facility or are ineligible due to the criteria set by commercial banks. The banks refuse to finance exporting firms when they cannot meet the required standards.

The EFS by SBP has expanded exporters' access to credit, particularly for small and medium-sized enterprises (SMEs), which previously struggled to obtain financing from commercial banks. EFS has supported exporters' cash flow by providing financing for pre- and post-shipment activities (TDAP, 2020). This has enabled exporters to better manage their cash flows and mitigate financial risks. EFS has enhanced Pakistani exporters' competitiveness by providing funds for export-related operations, including working capital, capital expenditures, and export-related fees. Additionally, EFS has contributed to increasing Pakistan's export volume by helping exporters expand into new markets and develop new products to export.

The exporters' experience has led this study to conclude that the EFS (SBP) and the Export Facilitation Scheme by FBR both aim to involve exporters; however, only a few exporting firms meet the financing criteria. It seems that Pakistan's exporting firms need to upgrade themselves to meet the standards set forth by SBP and FBR. For example, the textile and garment industry has long been a substantial contributor to Pakistan's exports. However, their competitiveness needs further improvement through investments in technology, increased efficiency, and the removal of supply chain bottlenecks. The export of agricultural products, including high-quality crops such as mangoes, citrus fruits, and grains, holds significant export potential. Certain industries show significant growth prospects and could benefit from export finance packages to support their expansion and competitiveness.

Table 6: Commercial Banks' view (financing schemes of SBP)

Themes	Informant Key Points
Loan Duration	Commercial banks make long-term loans to exporters.
Provision of the loan	Exporters do not approach SBP directly for loans. The process is done through commercial banks.
	Commercial banks need collateral. If exporter do not provide it, he will not be accommodated by bank.
	Commercial banks hold the exporters' legal information, provide the papers to the SBP, and then reroute the funds to the exporters.

Tenure for Loan	Exporters must demonstrate performance conditioned with the loan amount. The loan term is 180 days with a 9-day rollover. The corporate sector receives a benefit of 0.5-1.5 percent, while small and medium-sized enterprises (SMEs) accessing financing through export financing schemes receive a benefit of 1-2 percent.
Challenges	Exporters face delays and difficulty in acquiring the requisite licenses and certificates Lack of awareness of the process and incomplete documentation The bank will not agree to provide financing if exporter's documentation is incomplete Delays due to approval processes

Source: Information collected based on interviews and personal visits.

Commercial banks are involved in the financing process by the SBP. These banks operate based on a set of criteria for exporters seeking funding. Banks reported an increase in demand for export finance, with some claiming a rise in their export financing portfolios. Several difficulties and challenges are highlighted in providing funding to exporting firms. These include assessing potential borrowers' creditworthiness, delays in obtaining the necessary licenses and certificates, lack of awareness of the process, incomplete documentation, and delays caused by approval procedures. According to their criteria, commercial banks do not provide financing if the exporter's documentation and collateral requirements are incomplete.

Commercial banks have generally responded positively to these financing schemes, which have helped them expand lending opportunities, reduce risks, and enhance portfolio quality. A UNCTAD report also supported the role of banks in providing long-term financing straight routing from their own funding sources, by leveraging additional resources through co-financing projects with other partners (UNCTAD, 2016).

5.4 Insights of the Commercial Banks on Part I and Part II

The SBP involves commercial banks to carry on the EFS Part-I Transaction-Based Facility and the EFS Part-II Performance-Based Facility.

a) Export Finance Scheme (EFS Part-I - Transaction-Based SBP Facility) :

When providing funding under the EFS Part-I Transaction-Based Facility, commercial banks must adhere to specific norms and restrictions established by the SBP. These rules include:

- maintaining minimum credit standards
- securing enough collateral
- monitoring the use of the granted money

Before granting funding, commercial banks must assess the exporter's creditworthiness. This involves examining the exporter's:

- financial accounts
- credit history
- repayment capabilities

Banks must evaluate the validity and probability of fulfilling export orders received by the exporter. Banks may also consider the importer's reputation and the market conditions for the exporter's product. Under the EFS Part-I Transaction-Based Facility, the SBP also offers incentives to commercial banks for achieving export financing goals. This supports the ongoing growth and development of Pakistan's export economy as reported by (SBP, 2012; TDAP, 2020).

b) Export Finance Scheme (EFS Part-II - Performance-Based Facility)

While providing funding through the EFS Part-II Performance-Based Facility, commercial banks must adhere to specific standards and restrictions set by the SBP. These standards include:

- reviewing the exporter's creditworthiness
- assessing the exporter's export performance
- ensuring that the money supplied is used for export-related operations

Commercial banks are also expected to continuously monitor the exporter's export performance and report any deviations from the export objectives to the SBP. Furthermore, the SBP incentivizes commercial banks to fulfill export financing objectives through the EFS Part II Performance-Based Facility. Commercial banks play a critical role in providing funding under the EFS Part II Performance-Based Facility, which is crucial for Pakistan's export growth (SBP, 2012; TDAP, 2020).

In summary, qualitative findings show that export financing/rebates have little effect on export growth, indicating a need to revisit current policies. Reducing bureaucratic barriers and improving the business environment could boost export competitiveness. Only a few medium-sized firms utilize the financing facility. Small exporting firms do not use the facility because they are not encouraged to improve their capacity (in terms of technology, standards, and patents) due to an unfavorable business environment in the country. They are unable to meet the documentation and collateral requirements set by commercial banks and therefore cannot access export financing offered by SBP. Regarding FBR facilitation (direct financing—without involving commercial banks), it is observed that while the scheme offers financing to many exporters, medium and small firms struggle to meet international standards and documentation requirements. As a result, larger exporters are taking advantage of these schemes and find export costs to be more economical.

Both the SBP and FBR schemes aim to facilitate exports and provide attractive incentives. The financing programs have supplied much-needed funds to exporters along with incentives. Exporters who utilize these schemes are encouraged to improve their export performance. The extended production process and the time lag between production and delivery make trading firms reliant on export finance to meet their working capital needs. Additionally, since export markets are more sophisticated and competitive than domestic markets, ongoing investment in upgrades is essential to keep up with global demand. The study finds that "large" and "medium" exporting firms are mainly the beneficiaries of the export financing schemes, while smaller enterprises are not participating either due to a lack of awareness or fear of the complex process. Large firms achieve their export targets after utilizing the EFS as they are bound by the agreement.

6. Conclusion

Pakistan makes significant efforts to stay competitive and offers various export financing schemes to support exporting firms. The FBR, SBP, TDAP, commercial banks, and EXIM Bank are authorized to provide these schemes. However, the export financing has been minor, as evidenced by stagnant exports in the country. Using a qualitative approach and secondary data, the study highlights the experiences of exporters and shows that large exporters are accessing financing or rebates but are still unable to expand their export output. The study reveals that export financing schemes in Pakistan have had a limited effect on export growth, mainly larger firms, while smaller ones face challenges due to unfavorable business conditions, bureaucratic requirements such as documentation, licenses, collateral, and a trust deficit from lenders. Despite efforts from both the SBP and the FBR, SMEs still find it difficult to access funding. Opportunities for improvement include increasing access, simplifying processes, rebuilding business confidence, and enhancing collaboration between the public and private sectors. Ultimately, while these schemes aim to boost exports, further improvements are needed to promote broader inclusion and meet regulatory standards.

While these export finance schemes have been a step forward, there is potential to improve access to funding, streamline the application and approval processes, and enhance interactions between the public and private sectors. Overall, the regulatory framework for export financing schemes in Pakistan aims to promote the growth of the export sector while ensuring compliance with regulatory requirements, with the government responsible for mitigating the risk of default. The framework also ensures that exporters submit valid and complete documentation, thereby maintaining necessary regulatory standards.

7. Recommendations

The recommendations based on the findings are:

- Establish a coordinated public-private framework for exporter upgrading by developing sector-specific criteria to meet international standards, supported by targeted capacity-building programs in quality compliance, documentation, and record-keeping. Private-sector bodies, PBCs, chambers, and associations should serve as mediators in designing these criteria, while the SBP and commercial banks collaborate to align financing products with upgrading needs and aim to restore exporter confidence.

- Create an inclusive export finance and diversification facility that encourages product and market growth while reducing entry barriers for smaller and non-traditional exporters. This should combine targeted financing (pre- and post-export credit, risk-sharing tools) to explore new markets and products, along with simplified application processes and advisory support to promote broader participation.

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Annex 1

Questionnaire for Key Stakeholders

Category/ Functions Assessments	FBR	SBP	Exporters	Banks/Financial Institutes
Criteria Assessment	What are the criteria/requirements of SBP and FBR to initiate the export financing schemes?	What are the criteria/requirements of SBP and FBR to initiate the export financing schemes?	Whether Financing schemes are accessible? Enlist the criteria you experienced	What are the criteria/requirements of the Bank to initiate the export financing schemes?
Different Scheme	Difference between SBP and FBR schemes? FBR offers Things/ included in schemes	What is the difference between SBP and FBR schemes?	Which scheme is more supportive of the industries?	How is the Financing scheme for banks/institutions?
Regulatory Framework	Whether the mission goals being fulfilled?	Whether the mission goals being fulfilled?	Whether the mission goals being fulfilled?	Whether the mission goals being fulfilled?
Time Framework	The targeted period of these Financing schemes	The targeted period of these Financing schemes	The targeted period of these Financing schemes	The targeted period of these Financing schemes
Policy Role	Do you think recent policy needs expansion/ changes? Flaws in the recent policy	Do you think recent policy needs expansion/ changes?	Do you think recent policy needs expansion/ changes?	Do you think recent policy needs expansion/ changes?
Monitoring	How Monitoring is the being carried out in the scheme?	How Monitoring is the being carried out in the scheme?	How Monitoring is the being carried out in the scheme?	How Monitoring is the being carried out in the scheme?
Scheme Performance	How export financing schemes are performing in Pakistan?	How export financing schemes are performing in Pakistan?	How export financing schemes are performing in Pakistan?	How export financing schemes are performing in Pakistan?
Policy Regulation	What are the export policy regulations and facilitation of export financing schemes?	What are the export policy regulations and facilitation of export financing schemes?	What are the export policy regulations and facilitation of export financing schemes?	What are the export policy regulations and facilitation of export financing schemes?

Category/ Functions Assessments	FBR	SBP	Exporters	Banks/Financial Institutes
Impact of Export Financing Scheme or Export Facilitation	What is the significant boost in the country's foreign exchange earnings regarding export schemes?	What is the significant boost in the country's foreign exchange earnings regarding export schemes?	What is the significant boost in the country's foreign exchange earnings regarding export schemes?	What is the significant boost in the country's foreign exchange earnings regarding export schemes?
Related Sector	What is the important sector of the economy the SBP has related to the export finance schemes?			
Targeted Industries	Export financing scheme targeting the industries which industries are mostly benefiting from this scheme?	Export financing scheme targeting the industries which industries are mostly benefiting from this scheme?	Export financing scheme targeting the industries which industries are mostly benefiting from this scheme?	Export financing scheme targeting the industries which industries are mostly benefiting from this scheme?
Key Challenges	What Challenges are being faced?	What Challenges are being faced?	What Challenges are being faced?	What Challenges are being faced?

Annex 2

Eligible Goods & Services under the Scheme

Major value-added exports from Pakistan qualify for EFS financing, except those on the Negative List. Exporters must meet bank lending criteria. EFS is available for self-consignment exports of gold jewelry, gemstones, and precious/semi-precious stones. Consultancy services earning foreign remittances, including medical, engineering, financial, telecom, education, and real estate, are also eligible.

List of Commodities Ineligible for Export Refinance under the EFS-SBP

Raw Cotton (Excluding Surgical Bleached / Absorbent)	**Fertilizer Crude**
All Types of Yarn	Jewelry exported under the Entrustment Scheme
Mutton and Beef other than frozen & preserved	Live Animals
Crude Vegetable materials n.e.s.	Hides & Skins
Wool & Animal Hair	Leather Wet Blue
Crude Animal Material	Antiques
Waste & Scrap of all kinds	Fur Skins
Stone, Sand and Gravel	Wood is rough or squared