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PHMA for restoration of original EFS framework

BUSINESS RECORDER The Pakistan Hosiery Manufacturers & Exporters Association (PHMA) on Wednesday urged the government to restore the original Export Facilitation Scheme (EFS), saying that policy changes have increased costs and worsened cash flow problems for textile exporters.

The PHMA highlighted that the exclusion of raw cotton, cotton yarn and grey fabric from the scheme, withdrawal of zero-rating on eligible local supplies and delays in sales tax refunds had placed additional financial pressure on exporters and affected the textile value chain.

It also invited the government's attention to the recent fall in textile exports.

Central Chairman of the PHMA, Syed Zia Alamdar Hussain welcomed the government's decision to continue EFS but called for its restoration to the original framework under SRO 957(I)/2021, as it stood before changes introduced in the Federal Budget 2024–25.

The withdrawal of zero-rating on eligible local supplies under SRO 1281(I)/2024, dated August 20, 2024, was followed by the exclusion of raw cotton, cotton yarn and grey fabric from EFS 2021 under SRO 1435(I)/2025, dated August 5, 2025. These changes had increased the cost of business and created serious cash flow problems for textile manufacturers, he said.

Under the previous framework, eligible local supplies to authorised exporters were zero-rated, allowing manufacturers to purchase essential raw materials without tying up substantial working capital in sales tax payments. Following the withdrawal of this facility, exporters have to pay 18 percent sales tax on taxable local purchases, raising production costs and putting locally sourced inputs at a disadvantage compared with eligible imported ones under the scheme.

Syed Zia Alamdar Hussain said the recent decline in exports should also be examined in the context of these policy changes, which had weakened exporters' competitiveness.

He said cash flow had become one of the biggest challenges for textile exporters. The production, processing and shipment of export goods could take approximately 180 days, while sales tax refunds could take even longer, leaving exporters' funds stuck for extended periods.

Exporters consequently have to finance substantial tax payments from their own resources or through bank borrowing while continuing to meet expenses for wages, electricity, gas, raw materials, freight and other operational needs. The blockage of working capital increases borrowing costs, restricts production capacity and makes it harder for exporters to fulfil international orders at competitive prices, he said. Small and medium-sized enterprises (SMEs) are particularly vulnerable because they have limited resources to absorb additional tax burdens and prolonged refund delays.

He stressed that export growth could not be sustained unless businesses had timely access to their own funds and a predictable, business-friendly tax and facilitation regime.

The PHMA chairman urged the government to restore zero-rating on eligible local supplies to authorized exporters under EFS 2021, subject to appropriate verification and audit controls. He also called for raw cotton, cotton yarn and grey fabric to be brought back into the scheme, particularly where domestic suppliers could not meet exporters' requirements for quality, quantity, delivery schedules or competitive prices.

Timely sales tax refunds and consistent export policies were essential to reducing production costs, strengthening domestic manufacturing and ensuring a level playing field for Pakistani exporters, he said and reaffirmed PHMA's support for the government's efforts to prevent misuse of EFS and protect the national exchequer. He said the government and relevant regulatory authorities should identify and investigate suspected misuse and take appropriate action where violations were established, in accordance with the law and due process.

However, he stressed that irregularities should be addressed through targeted enforcement and effective monitoring rather than blanket restrictions that could harm genuine and compliant beneficiaries. Constructive consultation with industry stakeholders was also necessary to resolve concerns over the scheme's continuation and implementation. He said the objective should be to strengthen transparency, accountability and compliance while preserving EFS benefits for legitimate businesses and ensuring that the scheme continued to support Pakistan's export growth.

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