

3 Foreign Exchange Operations

Foreign Exchange Operations Department (FEOD) of SBP BSC acts as operational arm of Exchange Policy Department. Implementation of different policies at federal government level concerning foreign exchange also comes under the fold of department. The department continued its endeavors to ensure the effective implementation of all policies keeping their true spirits alive.

3.1 Overview

The Exchange Policy Department of the State Bank of Pakistan (SBP) formulates various policies concerning foreign exchange regime in Pakistan. The policies so formulated are implemented by Foreign Exchange Operations Department (FEOD) of SBP BSC which provides different services to the Authorized Dealers (ADs¹). The responsibilities of FEOD generally include; provision of services to its stakeholders at HOK as also through its field units in the areas of; matters relating to imports and exports, exports verification and claims, commercial & private remittances, foreign exchange allocations and releases, exports overdue issues as also facilitating submission of returns and statistical data by the ADs. In addition to these routine services, the FEOD is also a hub for disbursement of incentives announced by the Federal Government under its different schemes. The department also conducts dedicated courses for commercial banks to disseminate and provide awareness about SBP Foreign Exchange and Government policies, besides providing training to the employees of ADs regarding different requirements concerning submission of statistical data. While dealing with cases on export over dues, the department also issue show cause notices to the delinquent exporters & authorized dealers and subsequently lodge complaints there-against in the Foreign Exchange Adjudication Courts.

Our Functions

- Implementations of SBP foreign exchange policies.
- Export Verification under Export Finance Scheme.
- Perusing export overdue cases against delinquent exporters.
- Implementation of various subsidy schemes of Federal Government.
- Dissemination of SBP and Government policies.

¹ ADs are dedicated branches of commercial banks dealing in foreign exchange transactions as per SBP's instructions.

3.2 Verification of EE / EF Statements for Export Refinance

The department remained engaged in verification of EE/ EF-1 statements submitted by ADs especially during July- September 2009. On the basis of this verification, exporters' limits/ performance is determined under part II of the Export Finance Scheme. Until this year entries were verified manually however system has been developed to verify online statements submitted by ADs through International Transaction Reporting System (ITRS), thereby improving timeliness and accuracy. During the period under review 458,206 entries were verified as against 542,172 last year.

3.3 Implementation of Various Schemes of Federal Government

The department continued to administer five support schemes announced by the Government from time to time.

3.3.1 R&D Support For Textile Exporters

The R&D Support scheme for exporters of Garments started in 2005 and that for Home Textile and Processed Fabrics in 2006. Both schemes were applicable to exports made up to 30-06-2008. During FY10, balance 60% of 40,138 cases already paid partly to the tune of 40% was due for payment. However, owing to the newly introduced condition of registration with Ministry of Textile, only 38,000 of these claims became eligible. Payment of an amount of Rs.2,986 million was disbursed against 32,863 cases through their financing banks during FY10.

3.3.2 Drawback of Local Taxes & Levies

The Federal Government through Ministry of Textile and Industries decided to provide Drawback of Local Taxes and Levies (DLTL) collected from garments, home textile and processed fabric exporters. This facility is applicable on the exports made from 01-09-2009 to 30-06-2011. The scheme has been broadly drawn in line with R&D Scheme, albeit the rates have been revised from 6%, 5% and 3% to 3%, 2% and 1% respectively. The scope of the scheme is however much broader than R&D support scheme as exports to all countries are eligible for DLTL claims contrary to R&D support scheme where exports to only few countries were eligible. During the year 50,753 claims were paid.

3.3.3 Subsidization of Pure Terephthalic Acid

The scheme of subsidization of Pure Terephthalic Acid (PTA) started in 2008-09 and continued during 2009-10 as well. This scheme reimburses 7.5% tax paid by polyester products manufacturers using PTA. A total of Rs.1.912 billion was paid during FY10 in accordance with the budget allocated for the purpose.

3.3.4 R&D Support on Export of Motorcycles

The scheme grants rupee equivalent of US\$50 support for each exported motorcycle unit. During FY10, Rs.25 million was allocated for this scheme which got fully disbursed.

3.3.5 Subsidy on Import of Fertilizer

Subsidy on import of fertilizer is announced seasonally by Ministry of Food and Agriculture. In FY10 Rs.500 million was allocated as subsidy for import of 50,000 metric

tons of Phosphatic and Potassic fertilizers @ Rs.500 per 50 Kg bag. All eligible claims of Rs.436.981 million were fully settled under this scheme Table 3.1.

Table 3.1: Summary of Disbursements Against Various Subsidy Schemes During FY10			
			rupees in millions
S. #.	Scheme	Cases Paid	Amount
1	Drawback of Local Taxes & Levies	50,753	3,408.72
2	60% R&DS	32,863	2,986.42
3	Subsidy on PTA	77	1,912.49
4	R&DS – Motorcycle	45	24.987
5	Subsidy on Fertilizer	45	436.981
Total		83,783	8,769.60

3.4 Strengthening the Enforcement Mechanism of Export Overdues

Rigorous efforts were made at BSC Head Office Karachi as well as at Field Offices to expedite the process of tracing out delinquent exporters in order to persuade them to repatriate stuck up exports proceeds. Regular follow-ups and meetings with concerned authorized dealers and trade associations were arranged besides approaching the authorized dealers to pursue exporters to repatriate the export proceeds. In this respect 30,628 notices were issued to the delinquent exporters and 2,893 to the authorized dealers during the year under review. Due to no response from them 1,850 complaints were lodged during FY10 against exporters and 1,169 against the authorized dealers in the Foreign Exchange Adjudication Courts set up under Section 23B of FERA 1947.

3.5 Automation of Processes

Bank guarantee for export of raw cotton is to be submitted by exporters as security for assurance that they will affect the shipment. These guarantees are registered with FEOD where expiry period of the guarantees is monitored manually with high risk that guarantees' period may elapse. To mitigate this risk, an automated system for monitoring of such guarantees has been developed by the department. The registration part of all the guarantees has been completed and the system will start operating from 1st July 2010 for the crop year 2010-11.

FEOD Achievements during FY10

- 30,628 show cause notices issued to the delinquent exporters.
- 2,893 show cause notices issued to the authorized dealers.
- 458,206 entries of EE/ EF-I statements verified.
- Under R&D schemes for textile and motorcycles, payment to 32,908 claims worth Rs.3 billion.
- Under DLTL scheme, Payment to 50,753 claims worth Rs. 3.4 billion..
- Payment of Rs. 437 million under subsidy on import of fertilizer.

So far field offices used to send requests for foreign exchange allocation of various departments and defense sectors through fax to FEOD for approval. This not only required extra time and effort at HOK level but was also prone to different risks. To bring the processing time down and enhance precision of information, a special software has been developed with the help of ISTD for online submission of these requests from the next financial year.

3.6 Performance of Internal Monitoring Unit

The IMU of the department continued to play its role in cases where genuineness and clarity of documents is of vital importance. During FY10, this unit checked around 3,000 cases on a collective basis to ensure quality, accuracy and efficiency. In order to bring uniformity and transparency in foreign exchange operations across BSC offices, the unit has prepared detailed working procedures and check lists with the active participation of all the units which have been provided to all the concerned field offices.

3.7 Capacity Building

To update and refresh the existing knowledge base of the officials working in Core Operations and Export Overdue Units, a special training session was arranged in collaboration with T&DD on “Trade Documents & Regulatory Regime in Pakistan”.

In addition, all officials of Exchange Accounts Unit from HOK as well as from field offices have been provided a special training on automation of the processes relating to Foreign Exchange allocation.