

# 3 Foreign Exchange Operations

*Foreign Exchange is of particular importance for a net importer country like Pakistan. Managing foreign exchange is one of the major responsibilities of State Bank of Pakistan (SBP). Foreign Exchange Operations Department (FEOD) of SBP Banking Services Corporation (BSC) extends operational support to SBP in performance of this vital function. Besides monitoring the implementation of Foreign Exchange Regulations across the country, FEOD is also responsible for implementation of various schemes announced by the Government of Pakistan for exporters of different sectors.*

## 3.1 Overview

The management of foreign exchange regime including exchange rate management are core functions of State Bank of Pakistan (SBP). Policies regarding exchange rate management are formulated by the Exchange Policy Department (EPD) of SBP, whereas operational matters relating to Foreign Exchange are handled by the Foreign Exchange Operations Department (FEOD) of SBP Banking Services Corporation (BSC). The implementation of different schemes announced by Federal Government concerning exports enhancement also comes under the domain of FEOD. Major functions of FEOD include processing of export, import, private/commercial remittance cases submitted by Authorized Dealers (AD)<sup>1</sup> on behalf of their customers including major trade & industrial concerns and other government, semi-government, and autonomous organizations. The department also deals with foreign exchange allocation of government and semi-government institutions except for defense sector organizations and oil companies which are dealt with directly by the EPD, SBP<sup>2</sup>. Other major areas being dealt at FEOD include outward remittances to foreign consultants, advance payments against import of raw materials and spare parts. Cases related to frustrated cargo and re-import of exported goods with the purpose to re-export are also dealt by the FEOD. Moreover, FEOD also pursue the exporters through ADs for realization of export proceeds. In case the exporters fail to repatriate the export proceeds, the complaint against them are lodged in the Foreign Exchange Adjudication Court after issuing show cause notices to the delinquent exporters. These courts are established under Foreign Exchange Regulations Act (FERA) 1947 and currently working in SBP BSC field offices i.e. Karachi, Multan, Lahore, Sialkot and Faisalabad (see chapter 4, Foreign Exchange Adjudication). Overall volume of foreign exchange operations have been increased due to new schemes of the Federal Government.

## 3.2 Enhanced Role of FEOD

In order to enhance efficiency of the foreign exchange management process, a number of operational functions previously being undertaken by the EPD, SBP have been transferred to FEOD, SBP BSC with effect from July 1, 2011. In this regard, work relating to foreign exchange allocation, royalty, technical fee, branch/ liaison office

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<sup>1</sup> Commercial Banks Branches authorized by SBP to deal in Foreign Exchange.

<sup>2</sup> Effective from July 1, 2011 this function has also been transferred to FEOD.

permission and miscellaneous remittances have been transferred to FEOD. In addition, SBP/ Pakistan Customs joint booths at Karachi and Lahore airport have also been vested with FEOD from the same date. This enhancement in the role of FEOD is expected to reap the following benefits:

- Improvement in the quality of decision making both at policy (EPD) and operational (FEOD) side.
- Elimination of overlaps of functions between EPD and FEOD leading to greater stakeholder satisfaction.
- Improvement in the time liness of decision making benefiting the stakeholders.
- Optimal utilization of resources both at policy (EPD) and operational side (FEOD).

### 3.3 Strengthening the Enforcement Mechanism of Export Overdue

During FY11, FEOD, as a part of its efforts to repatriate the export proceeds, issued 10,096 notices to the delinquent exporters and ADs as against 19,659 notices issued during the last year.

In FY10, FEOD, in order to make the pending cases alive, issued these show cause notices against all outstanding export bills reflected in data on Export Overdue Cases (EOD) system since 2003 onward. This practice has been launched to peruse all delinquent exporters through ADs for the settlement of the export proceeds.

**Table 3.1: Show Cause Notices issued & Complaint Lodged in FEAD Courts**

	FY11	FY10
Number of show cause notices issued	10,096	19,659
Complaints lodged in Foreign Exchange Adjudication Court Against	3,818	3,019
(i) Exporters	2,107	1,850
(ii) Authorized Dealers	1,711	1,169

**Table 3.2: Reconciliation of Export Overdue Cases**

	FY 11	FY 10
No. of Banks	9	9
Difference in cases between V-16 and V-15	4,974	9,248
Cases Reconciled	4,274	-

As a result, out of 10,096 notices, responses to around 7,000 notices were received, which is a significant move in this regard. To further strengthen the follow-up process of realization of export overdues, 3,818 complaints were lodged during FY11 to the Foreign Exchange Adjudication Courts as against 3,019 complaints submitted during last year (Table 3.1). It is worth mentioning here that for the first time complaints against ADs were also lodged on account of violations of FERA 1947 by them. The main purpose of this initiative is to strengthen the efforts of FEOD to trace the delinquent exporters with the help of ADs and involving ADs in the process to ensure export repatriation. FEOD and its field offices also regularly follow-up and meet with high officials of concerned banks to expedite the process.

Moreover, in order to remove discrepancies in the export overdue data/returns submitted by the ADs to SBP/ SBP BSC, a number of meetings with the nine (9) banks having large number of discrepancies were held. As a result, around 4,274 export overdue cases were got reconciled in the V-15<sup>3</sup> and V-16<sup>4</sup> statements. Details of the same are given in Table 3.2.

<sup>3</sup> Yearly Statement submitted by the ADs to FEOD containing details of export overdue cases.

<sup>4</sup> Monthly Statement submitted by the ADs to FEOD containing details of export overdue cases.

Further, the EPD had been approached for issuance of necessary instructions to ADs regarding reporting of Documents against Payment (DP)/ Cash Against Documents (CAD) cases through overdue reporting system. Currently, this is being reported after 6 months, which delays initiation of the process as also taking required actions at the department level necessary to trace the exporter and ensure realization of proceeds. It is expected that timely reporting of such cases through system will bring efficiency and accuracy in respect of export overdue cases besides it will help in reducing the time taken in issuance of notices.

### 3.4 Verification of EE-I/ EF-I Statements for Export Finance

As a matter of practice, exporters report their consolidated export performance during a year on EE-I/EF-I Statements to SBP BSC offices through ADs. Exporters' export performance for the past year and limits for the next year under Part II of Export Finance Scheme are determined on the basis of these statements. The FEOD and its field units verify these EE-I/EF-I statements on receipt from ADs. During FY11, 497,053 entries reported in EE-I/EF-I statements have been verified comparing 458,206 entries last year.

### 3.5 Payment of Incentives under various Government Schemes

The FEOD and its units at various field offices have been assigned the responsibilities to disburse monetary incentives under different scheme of the Federal Government relating to exports. During FY11, total of 115,776 cases of subsidy payments besides all cases of foreign remittance (not covered by existing instructions for the ADs) were pre-audited against 83,693 in the corresponding period last year (**Table 3.3**). The detail of various subsidy payments is provided below.

		FY 11			FY 10		
		Budget Amount	Paid up to 30-06-2011	Number of cases	Budget Amount	Paid up-to 30-06-2010	Number of cases
1	Refund of Past R & D Claims	367	367	7,200	3,000	2,986	32,863
2	Monetization of PTA	1,381	1,381	41	1,950	1,912	77
3	Drawback of Local Taxes and Levies	3,815	3,814	108,535	3,411	3,409	50,753
<b>Total</b>		<b>5,563</b>	<b>5,562</b>	<b>115,776</b>	<b>8,361</b>	<b>8,307</b>	<b>83,693</b>

The number of cases settled and amount released under above schemes is primarily dependent upon the amount of budgetary allocations received from Federal Government in this regard; albeit disbursement against a specific request is always made subject to its conforming to the criteria set by the Ministry of Textiles Industries. FEOD's effective internal monitoring plays an important role in preventing and detecting cases for payment of these incentives which are not compliant to the criteria. FEOD's Internal Monitoring Unit (IMU) plays a vital role in audit of cases where genuineness of request and authenticity of documents are of vital importance.

#### 3.5.1 R&D Support Scheme for Textile Exporters

The Research & Development (R&D) Support scheme for exporters of Garments was started on behalf of Government of Pakistan in 2005 and that for Home Textile and Processed Fabrics in 2006. Both schemes were applicable to exports made upto 30-06-2008. During the year balance amount of Rs. 367 million being 60 percent amount of about 7,200 cases was paid. The 60% balance amount of 32,863 cases had already

been paid in the previous financial year. However, some claims still remain unpaid owing to the reason that many exporters had not obtained registration with Ministry of Textile (MinTex) and some were reported as not active by their banks.

### **3.5.2 Monetization of Pure Terephthalic Acid**

The support scheme for users of Pure Terephthalic Acid (PTA) continued till 30-06-2010. The outstanding cases for the currency period of the scheme were settled during FY11. Details of cases processed and payments made against various government schemes are given in Table 3.3.

### **3.5.3 Drawback of Local Taxes and Levies**

In September 2009, the Ministry of Textile Industry decided to provide Drawback of Local Taxes and Levies – (DLTL) to exporters of garments, home textile and processed fabric. During the year 108,535 claims were paid.

### **3.6 Maintenance of Vital Statistics**

The vital statistics relating to different areas of foreign exchange operations of the economy derived from aggregation of individual records, provides the tools for analysis, report generation and help us in seeking decisions from the management. Efforts have also been made to update the data ensuring accuracy and transparency, in order to maintain a data base regarding the information reported in monthly foreign exchange returns by the AD's. Besides compiling the month wise statistics and watch registers, the department also receives FE returns from almost 1,000 branches of Karachi region, which is difficult to manage as only two days are fixed to receive returns from ADs. Therefore, to minimize the quantum of workload, FEOD have approached EPD, SBP and suggested them to issue necessary instructions on the following matters.

- Receipt of foreign exchange returns through Head Offices/ Main Branches of ADs instead of all foreign exchange branches.
- Head Offices/ Main Branch to submit only one set of foreign exchange returns.
- Only authorized officer signing the letter be allowed to submit the returns.

After the implementation of the proposed instructions, likely benefit would be reduction in piling up unnecessary record, involvement of less number of staff in receiving these returns and ensuring proper record keeping. Further, it will also support in quality analysis for reports.

### **3.7 Capacity Building**

In order to build the capacity of the staff involved in foreign exchange operation and other government schemes specialized courses were arranged with the support of Training & Development Department, BSC. Efforts have been made to improve automation to speed up the process. As a result of these capacities building programs and automation at HOK and field offices level, efficiency and transparency in BSC performance have improved. These capacity building programs are very helpful and supplement the efforts of the staff to track delinquent exporters and to increase the export proceeds to ensure the effective implementation of foreign exchange policies, keeping their true spirit alive.