

Foreign Exchange Operations



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The key role assigned to the Foreign Exchange Operations Department (FEOD) is to facilitate all stakeholders in managing their foreign exchange requirements as per Foreign Exchange Manual. FEOD also processes cases for payment of subsidy by Government under its various schemes. The department aims to discharge its responsibilities diligently, smoothly and efficiently with emphasis on augmenting and facilitating its stakeholders.

4.1 Foreign Exchange Operations Department

Foreign Exchange Operations Department is one of the core departments of SBP BSC which primarily deals with the monitoring and repatriation of export proceeds within the stipulated time frame. The department grants approvals for government, private and commercial foreign exchange remittances. Scrutiny of applications and payment to exporters under various subsidy schemes, collection and analysis of monthly FE returns are some other functions performed by FEOD.

4.2 Developmental Initiatives

FY16 has remained an eventful year for FEOD due to changes in regulations, increase in operational assignments and changes in the management of the department. Instructions and guidelines were issued to banks for ensuring compliance by all stakeholders to the foreign exchange regime and instructions issued by Government departments. Policy feedback was provided to the policy making departments of SBP and other Government agencies. Despite all these executions, FEOD has accomplished key milestones with the collective efforts of various stakeholders in automation, capacity building and processing of cases etc. Major initiatives completed during FY16 are as under:

4.2.1 Emphasis on Automation

The SBP BSC management has been trying to automate major work processes for efficient disposal of cases referred to FEOD and to streamline the departmental processes and working. Most prominent is the automation of Export Form (E-Form) in Web-Based One Customs (WeBOC). This automation is bringing efficiency to the current system by reducing the cost of doing business for exporters, eliminating the use of fake/forged Form-E, efficient processing of Drawbacks on Local Taxes and Levies (DLTL) claims to exporters, and hence ultimately increasing the repatriation of export proceeds in the country.

The automation of Import Form (I-Form) is also being carried out through WeBOC by linking the payment module with the customs' cleared consignments with the help of customs authorities and Exchange Policy Department (EPD). This will help in curbing malpractices in the form of multiple payments against single import consignment and use of non-banking channels to settle import payments. Monitoring of import payment was further strengthened by adding essential fields in the decades-old import schedule with the help of EPD and S&DWD (Statistics and Data Warehouse Department). Prior to this change, it was not possible to monitor the performance against each mode of trade. This small change in the system has resulted in efficient monitoring of trade transactions according to their risk profile.

In order to evaluate the export performance, a large number of EE-1/EF-1 statements are being verified and scrutinized every year. The next year Part-II Export Finance limit for exporters is

contingent upon this verification; therefore all returns submitted are required to be verified within a period of 25 calendar days. During FY16, over 400,000 entries of EE-1/EF-1 statements were verified by FEOD from International Transactions Reporting System (ITRS) for assessing the export performance of the exporters and allocation of limit for Export Finance Scheme (EFS) Part-II. There was a substantial increase in the volume of entries as compared to FY15 where less than 350,000 entries were verified. The manual verification is a time consuming and tedious process. However, to meet the timelines, staff of FEOD has to work for extended hours. An automation project was conceived which will improve efficiency and effectiveness in the monitoring of Part-II (Performance based facility) of the Export Finance Scheme. Towards this end, FEOD has successfully brought on board all the major stakeholders including DFSD, S&DWD and ISTD (Information Systems & Technology Department) for the automation of this project.

An analytical tool named “Cube” has also been developed for analyzing the data trends, cross referencing and monitoring of monthly data received from Authorized Dealers (ADs). Moreover, a prototype has been developed for risk-based monitoring of FE returns. Both the tools have been developed by using the already available data in ITRS in use of S&DWD.

4.2.2 Capacity Building Initiatives

The first and the foremost initiative was the capacity building of officers of Foreign Exchange Operations Department as also of commercial banks. FEOD had arranged various training programs to equip the trainees with the knowledge of innovations and complexities of the fast-changing scenario in international trade as well as in foreign exchange regime of Pakistan. For the purpose, in-house training and attachment programs with commercial banks have been arranged by FEOD. The initiative is aimed at comprehending the trade operations as well as to bridge the gap between Regulators and Authorized Dealers in respect of trade issues. Moreover, efforts have also been made to enhance knowledge base of officers on issues having indirect forward and backward linkages with foreign exchange operations. Accordingly FEOD officers were sent for training in Anti Money Laundering (AML), internal controls, risk management and trade dynamics of freight forwarders and shipping companies’ operations. In this regard, renowned industry experts were invited to share their market experience. Further, in order to encourage self-learning by officers, the ENB webpage of FEOD has been enriched with constructive training material, tutorials and presentations in FE areas, which are part of a resource base for appearing in the E-Learning modules of SBP BSC.

Moreover, keeping in view the fact that Authorized Dealers are major stakeholders, seminars and training programs were organized at various locations to improve their capacity with regard to FE operations. For the purpose, FEOD, EPD and IBP (Institute of Bankers Pakistan) have jointly designed a course for capacity building of officers of Authorized Dealers. During FY16, training was

Box 4.1: Performance Highlights for FY16

- Automation of Export & Import forms through WeBOC.
- Initiation of automation of verification and scrutiny process of EE-1/EF-1 statements.
- Effective utilization of ITRS for monitoring and compliance of FE transactions.
- Capacity building of FEOD officers to improve their technical proficiency required for the fast-changing scenario in the arena of international trade.
- Conducting of capacity building training programs for the officials of ADs for improving their technical capacity of FX operations.
- Referral of a total of 3,493 cases to FEA Courts against delinquent exporters, importers and ADs for legal proceedings.
- Effective monitoring of import payments against advance payment, resulting in repatriation of USD 10 million.
- Development of system-based scrutiny and payment under DLTL Textile and Non-Textile subsidy schemes of Rs 3.13 billion.
- Payments of Sugar, Wheat/Atta and Fertilizer Subsidy Schemes amounting to Rs 17.1 billion.
- Monitoring of FE allocation.

imparted to more than 800 officers of ADs. In addition, training programs for the officials of SBP were conducted to make them aware about the practical aspects of trade finance.

4.2.3 Process Improvement for Quick Disposal of Cases

FEOD receives and processes a large number of cases from different stakeholders on a daily basis for allowing necessary permission for commercial and private remittance. The department received more than 10,000 cases during FY16, 15% more as compared to the cases received during FY15. Around 97% of cases received have been disposed off during the period. The remaining 3% cases were the most recent ones or such cases that were held up for further clarification from ADs. In order to facilitate the ADs in the scrutiny and preparation of cases, the department has developed standardized templates, covering letter and checklist of minimum required documents. To monitor the performance of the department, a Management Information System was designed and implemented at Head Office and all Field Offices. The implementation of these measures has helped the department to reduce the turnaround time in approval of cases.

4.3 Monitoring & Enforcement

The department has continuously been making endeavors to properly follow-up cases of export overdue to ensure repatriation of export proceeds. Further, efforts were made for effective monitoring of outflow of foreign exchange by importers, shipping companies, airlines and freight forwarders.

4.3.1 Realization of Export Proceeds and Adjudication Process

In terms of instructions of State Bank of Pakistan, exporters are required to realize proceeds of exports within the stipulated timelines from the date of shipments. FEOD vigorously followed the exporters for repatriation of stuck-up export proceeds, based on data of Export Overdue, as reported by commercial banks in Export Overdue Reporting System (EORS). The department managed to get repatriation of USD 301 million from overdue export proceeds in FY16 as compared to USD 296.5 million during FY15. Complaints against 2,233 delinquent exporters were filed with the Foreign Exchange Adjudication Department (FEAD) under section 12 (1) of Foreign Exchange Regulation Act (FERA), 1947. For the last few years, FEOD has also started filing complaints against the Authorized Dealers who have failed to submit shipping documents and exercise due diligence required by FE Manual and SBP instructions. During FY16, FEOD has filed 1,235 complaints against Authorized Dealers as against 2,503 in FY15.

4.3.2 Monitoring of Import Payments

As a result of monitoring of import data, especially import against open account, various cases were unearthed where an importer sent multiple remittances against the same bill of lading. With the active follow-up during the year, the department has been able to ensure repatriation of substantial foreign exchange fraudulently sent abroad against duplicate documents. As a corollary, regulations were revised and strengthened with the help of EPD and banks were advised to send all cases to FEOD for approval where original transport documents were missing. During the year, 2,455 cases were approved by FEOD. The department expects that automation of I-Form will further ease the monitoring process.

4.3.3 Scrutiny and Payment of Subsidy Schemes

FEOD has been entrusted to make payments for subsidy under different schemes announced by various ministries of the Government of Pakistan. To facilitate processing of these cases, the department, in collaboration with ISTD, has developed an application for system-based scrutiny and payments of Textile and Non-Textile subsidy schemes.

During the year, DLT schemes announced by the Ministry of Textile Industry and Ministry of Commerce were also dealt by the department. Under the scheme, DLT was allowed on enhanced exports of 2013-14; if increased beyond 10 percent as compared to exports of 2012-13. FEOD issued detailed guidelines to banks for proper processing and submission of claims. In the last quarter of FY16, the method of calculation for exports of two years was revised by the Ministries. In order to facilitate the exporters in filing revised claims, FEOD issued guidelines along with an Excel Workbook for recalculation of claims.

Besides DLT schemes, FEOD also dealt with subsidy schemes on export of sugar, wheat/wheat flour and subsidized sale of fertilizer under the Kissan Package. An amount of Rs 5.94 billion was disbursed in FY16 against all the subsidy schemes as compared to Rs 7.37 billion in FY15, in line with the policy announcement by the respective ministries.

4.3.4 Scrutiny and Verification of FE Returns

The volume of FE returns with supporting documents has substantially increased with the growth of international trade of Pakistan. During FY16, a total of 1.3 million forms (E, I, M, R/IRV, T-1, Hajj) along with supporting documents were received by FEOD. Out of these, 171,314 'M' & 'I' forms were scrutinized as per laid down criteria and discrepancies in 39,960 forms were found, which got rectified.

The department has also intensified its monitoring and follow-up for submission of shipping documents where payments were released by banks in advance for import of goods as per SBP instructions. Requisite penalty was recovered from delinquent banks in instances where the shipping documents were not furnished.

4.4 Future Outlook

Responding to the emerging requirements of a robust and effective monitoring mechanism for foreign exchange transactions coupled with providing efficient services to its stakeholders, FEOD has envisaged its future outlook on three pillars i.e. automation, improving efficiencies in its processes, and capacity building.

In the arena of automation and process efficiencies, two major projects have been initiated i.e. automation of verification of EE-1/EF-1 statements and acquisition of a digital work flow system for case processing. In the first project, manual performance evaluation of exporters' EE-1/EF-1 statements will be shifted to an electronic verification, scrutiny and performance calculation based system. This automation will bring about efficiency in human resources, reduction in error rate and saving in lead time. The second project is intended to shift the manual approval processes of commercial and private remittances, cases of subsidies and exchange account of FEOD into an automated approval process wherein applications from ADs will be received, processed, approved and disposed off in an automated environment. It will also greatly help in record management of such cases together with subsequent archival of documents, which at present is a gigantic task.

Efforts will also be made to convert the capacity building program initiated for officers of ADs during the previous year into a certification program. This goal shall be achieved with the help of NIBAF - the training arm of SBP - and the IBP. FEOD also intends to further enhance its program for sending its officers, on attachment basis, to commercial banks so that they continue to upgrade their skills.

FEOD will continue to improve its partnerships with all stakeholders for ensuring better FE management and compliance of regulatory instructions.