

4 Foreign Exchange Operations

4.1 Overview

The core function of formulation of foreign exchange policies is carried out by the Exchange Policy Department (EPD) of State Bank of Pakistan whereas all operational matters related to foreign exchange are undertaken by the Foreign Exchange Operations Department (FEOD). The core functions of FEOD are to ensure effective implementation of SBP's policies and effectively running the operations in accordance with the policies through the network of BSC field offices across the country.

FEOD is also actively engaged in monitoring foreign exchange business in the country and provide feedback on operational issues to EPD of SBP. Some of the important responsibilities of FEOD are to facilitate importers and exporters in carrying out their legitimate transactions incidental to their business such as commercial remittances, private remittances, insurance remittances, subsidized support schemes of the government for fertilizers, cement, garments, home textiles, verification of exporter's performance through statements, returns, schedules etc.

FY08 has witnessed a highly enterprising role of FEOD in its different operational areas. The department is strengthening its working relationship with banks, exporters, importers, shipping agencies etc. to solve their issues/ problems expeditiously. FEOD is also in the phase of developing Standard Operating Procedures (SOPs) in the operational areas so as to streamline the working on IT based solutions. Work is also under process for devising a simple and swift procedure for prompt processing of Research and Development Support Scheme (R&DS) cases and annual verification of EE/ EF statements.

The operational linkages of FEOD with SBP particularly with its Exchange Policy, Statistics & Data Warehouse and Banking Policy & Regulation Departments were actively pursued during FY08 besides maintaining close relationship with General Council Office on legal issues. Since the foreign exchange regime and its legal implications are technical in nature, therefore, all matters are dealt with in a professional manner and General Council Office is consulted in dealing with legal issues. The department also attended various references received from BPRD regarding the supply of information to NAB for study and examination of Research and Development claims of exporters indulged in fake claims. References received from other departments of SBP for their multiple data needs, were also handled promptly.

4.2 Disbursements against R&DS claims

During FY08, the disbursement of funds against R&D claims was the priority at all field offices of BSC. The amounts were disbursed for Research and Development purpose to different sub-sections of textile viz., garments, home textile including fabric, bed linen, and leather footwear. Payments in respect of 163,954 cases of R&DS claims of all categories amounting to Rs.20,486.2 million were made during FY08 {Table 2.2(a)} as against payments of Rs.14,099.9 million in respect of 118,028 cases was made during FY07. This

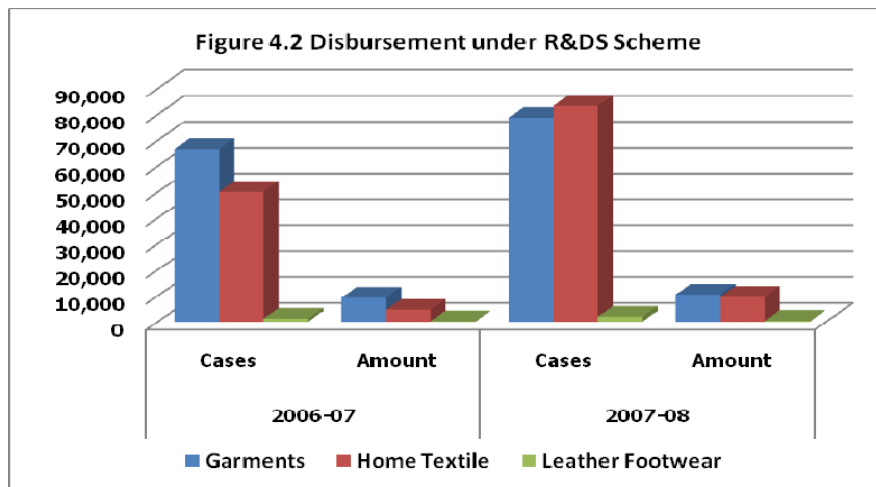
showed a substantial increase of 45.3 percent in disbursement of funds under R&DS scheme during FY08 over the payments made in FY07.

Table 4.2(a) Payment Profile under R&DS during 2007-08

Offices	Garments		Home Textile		Leather Footwear		All Categories	
	Cases	Amount *	Cases	Amount*	Cases	Amount*	Cases	Amount*
Faisalabad	10,043	1,463.432	26,405	2,819.645	-	-	36,448	4,283.077
Gujranwala	102	18.733	61	5.394	42	2.826	205	26.953
Hyderabad	87	11.918	288	74.316	-	-	375	86.234
Karachi	39,799	5,895.167	44,735	5,646.979	29	2.467	84,563	11,544.613
Lahore	18,593	2,389.292	9,906	918.108	955	149.987	29,454	3,457.387
Multan	482	112.280	968	60.070	559	175.598	2,009	347.948
Rawalpindi	76	10.556	830	120.741	-	-	906	131.297
Sialkot	9,559	582.444	113	7.705	322	18.556	9,994	608.705
Total	78,741	10,483.822	83,306	9,652.958	1,907	349.434	163,954	20,486.214
Payment Profile under R&DS during 2006-07								
Faisalabad	7,808	1,299.555	16,017	1,620.389	-	-	23,825	2,919.944
Gujranwala	69	10.501	22	1.858	23	1.577	114	13.936
Hyderabad	179	14.804	255	36.653	-	-	434	51.457
Karachi	36,167	5,286.261	26,514	2,395.889	7	0.685	62,688	7,682.835
Lahore	10,212	2,097.052	6,366	481.205	736	78.124	17,314	2,656.381
Multan	437	124.396	362	19.745	298	88.276	1,097	232.417
Rawalpindi	72	9.313	495	57.362	-	-	567	66.675
Sialkot	11,760	463.108	93	4.947	136	8.278	11,989	476.333
Total	66,704	9,304.990	50,124	4,618.048	1,200	176.940	118,028	14,099.978
<i>* Amount Rupees in million</i>								

Table 4.2(b) Summary of Disbursements under R&DS Scheme

Category	Number of Paid Cases		Amount Disbursed (Rupees in million)	
	2006-07	2007-08	2006-07	2007-08
Garments	66,704	78,741	9,304.990	10,483.822
Home Textile	50,124	83,306	4,618.048	9,652.958
Leather Footwear	1,200	1,907	176.940	349.434
Total	118,028	163,954	14,099.978	20,486.214



4.3 Scrutiny of R&DS cases for identification of fake claims

The cases relating to R&DS scheme were promptly processed and scrutinized for payments under relevant provisions of SROs issued by the government. The penalization issues were timely taken up with concerned quarters including EPD and General Counsel Office SBP so that all policy and legal implications could be studied carefully. During FY08, field offices followed a rigorous audit of R&DS claims submitted by banks. Due to close scrutiny 24,835 cases were returned to Authorized Dealers with objections having discrepancies of multiple natures.

4.4 Disbursement of freight subsidy on import of fertilizer

Freight subsidy on import of fertilizer was introduced in FY07 to ensure availability of fertilizer in a cost effective and timely manner in the market. In pursuance of the SROs issued by the Federal Government for payment of freight subsidy, SBP-BSC offices at Karachi, Lahore, Multan and Rawalpindi attended the cases of subsidy on fertilizer received from various importers. The year-wise payment of freight subsidy on import of fertilizer is given below.

Table 4.4 Profile of Payment of Freight Subsidy on import of Fertilizer				
<i>(Amount Rs. in million)</i>				
Office	2006-07		2007-08	
	Quantity (Kg)	Amount	Quantity (Kg)	Amount
Karachi	501,009,257	3,268.9	447,041,680	5,269.00
Lahore	10,072,264	50.3	155,724,631	1,539.20
Multan	7,530,000	69.0	196,577,941	1,880.30
Rawalpindi	120,797,039	604.0	151,720,600	1,957.70
Total	639,408,560	3,992.2	951,064,852	10,646.20

The year-wise statement of freight subsidy indicated substantial increase in the quantum of payments made to importers against their claims for availing of freight subsidy announced by the government. Considering the significance of the scheme and its likely impact on productivity of the industry, a protected approach was followed so that shipping documents could be checked properly. The authority for approval of claim was centralized at EPD. However, periodical reconciliation was carried out with field offices of BSC especially to ascertain that no approval remained pending and that payments were duly credited. Concurrently, reconciliation of relevant government accounts was also undertaken with respective district offices of AGPR.

4.5 Cut off date for R&DS claims

During June 2008, FEOD under took massive payments on account of the cutoff date of 25th June 2008 agreed by Finance Division for the payment of R&DS claims by the 30th June 2008. At Karachi office 5,541 cases were received on 25th June 2008 out of which 4,488 cases were found in order while 1,053 cases were returned due to different objections. A total amount of Rs.857.1 million was credited to banks against 4,852 cases including 364 cases received before date.

4.6 Six month data study on export against DP and DA basis

As per rules, exporters are required to bring proceeds within a period of 180 days (except

against hand knotted carpets) in accordance with the terms of contract. Generally, the exports made on letter of credit basis are fully realized and the realization certificate is issued by the commercial bank concerned. Commercial banks report the export overdue cases and the amount realized in foreign exchange through statements in Form V-16 and V-17 respectively to FEOD on monthly basis. However, in order to ascertain the quantum of exports made through other mode of financing like D/P and D/A (i.e., on presentation of documents or against documents) basis, a six-month data study was conducted during the year under review. Keeping in view the findings of the study, FEOD has taken a number of steps to improve the existing procedure of reporting of export overdue cases as follows:

- The issues of software programming have been taken up with ISTD so as to clean the garbage data from the system.
- Although the reconciliation of data of export overdue cases is an ongoing exercise, however, exclusive meetings were held with the commercial banks to reconcile the data during FY08. As a result of this exercise, 7000 cases were adjusted as realized and around 30,000 cases were filtered down to configure reliable data base.
- Regular communication with the banks to keep them informed about the operational implications involved in the reporting mechanism.
- Frequent meetings were held with EPD and FEAD to devise a mechanism and to submit recommendations particularly to dispose of long outstanding overdue cases.
- Proposals were made to bring amendments in the FER Act 1947 so as to close the old cases where the chances of recovery are minimal.

4.7 Measures taken for early export overdue realization

The enforcement procedure to prosecute exporters for non-realization of export overdue proceeds has undergone improvement in view of the increased focus on early export overdue realization. As per existing instructions all field offices of BSC are authorized to accept shortfall in realization of export proceeds up to 30 percent of invoice value or USD 1,000, whichever is less. Field offices have also been advised that in case any Authorized Dealer fails to provide pre-adjudication information, a complaint may be filed with the Adjudication Court after serving the show cause notice to the defaulting bank. Further, for expeditious action against the defaulting exporters responsible for not bringing export proceeds in foreign exchange in the country, all offices of BSC have been advised to take legal action through FEAD directly instead of taking up such cases to Export Advisory Committee for a decision. This measure has helped in obtaining pre-adjudication information from the Authorized Dealers.

4.8 Verification of performance of exporters through EE and EF Statements

FEOD carries out verification of EE and EF statements of exporters to enable them to qualify for Export Finance Scheme. The job relating to verification of entries in EE and EF statements submitted by exporters, from the monthly returns A-1/ O-1 & A-2/O-2 every year is tedious and time consuming job and special teams have to be constituted to complete the job within the allocated time frame. A total number of 176,887 entries pertaining to EE and EF statements for FY08 were checked and verified as against 170,187 entries verified in the preceding year, which showed an increase of around 4 percent in the quantum of job

during the current year. A comparative position of verification of EE/ EF statements during 2006-07 and 2007-08 is given below:

Table 4.8 Profile of Verification of EE/ EF Statements			
S #	Name of the Bank	Entries pertaining to	
		2006-07	2007-08
1.	The Royal Bank of Scotland Limited	4,945	5,981
2.	Al-Baraka Islamic Bank	944	831
3.	Allied Bank Limited	2,720	5,722
4.	Askari Bank Limited	15,125	10,823
5.	Bank Alfalah Limited	7,456	8,319
6.	Bank AL-Habib Limited	17,505	21,676
7.	BankIslami Pakistan Limited	355	400
8.	The Bank of Khyber	275	-
9.	The Bank of Punjab	87	320
10.	Citi Bank NA	2,459	2,721
11.	Crescent Commercial Bank Limited	37	-
12.	Deutsche Bank AG	794	550
13.	Dawood Bank Limited	10	6
14.	Faysal Bank Limited	3,084	3,651
15.	First Women Bank Limited	62	56
16.	Habib Bank Limited	14,295	13,617
17.	The Hongkong and Shanghai Banking Corporation Limited	1,350	1,000
18.	KASB Bank Limited	2,398	2,195
19.	MCB Bank Limited	2,416	2,415
20.	Meezan Bank Limited	7,525	7,042
21.	Habib Metropolitan Bank Limited	42,846	45,414
22.	Mybank Limited	1,144	560
23.	National Bank of Pakistan	2,700	2,670
24.	NIB Bank Limited	7,232	12,226
25.	Oman International Bank SAOG	116	54
26.	PICIC Commercial Bank Limited (Now NIB Bank)	1,734	-
27.	Prime Bank Limited (Now RBS)	2,377	-
28.	Saudi Pak Commercial Bank Limited	694	1,292
29.	Soneri Bank Limited	9,984	10,606
30.	Standard Chartered Bank (Pakistan) Limited	11,509	8,739
31.	United Bank Limited	6,009	7,925
32.	Atlas Bank Limited	-	47
33.	Arif Habib Bank Limited	-	11
34.	Dubai Islamic Bank Pakistan Limited	-	10
35.	JS Bank Limited	-	8
Total		170,187	176,887

With a view to up grade the performance and speed up the verification of EE and EF statements, a comprehensive circular was issued for guidance of all authorized dealers regarding preparation and submission of EE and EF statements.

4.9 Initiatives taken for completion of Business Plan

The business plan of FEOD for the year 2007-08 was vigorously pursued and followed to

meet the deadlines. Most of deliverables against the development projects highlighted in the said business plan have been achieved with the help of ISTD, Statistics and Data Warehouse Department (STWD) of SBP, while the projects wherein policy and legal issues were involved have been forwarded (after completion) to EPD and General Council Office of SBP for seeking policy/ legal advice thereon. The impact/ benefits gained from these development projects are given below:

- In all IT related projects particularly the IT based Export Overdue System a number of meetings were held with ISTD on user ID issues. As a result of these efforts, the field offices of BSC have now been provided access to the system for issuance of show cause and legal notices to defaulting exporters in their region.
- New ITRS version developed by STWD has been installed at FEOD and data is now retrieved for handling of foreign exchange returns quite smoothly. In order to see the implications of ITRS on department's manual working and procedure, a number of meetings have been arranged with commercial banks for seeking their feed back to get their data directly in FEOD. The data needs have been studied and further course of action will be developed with the help of STWD and ISTD SBP in near future.
- To strengthen the enforcement role of SBP under FER Act 1947, working papers have been prepared and draft legal notifications were sent to SBP for their consideration.
- New standard operating procedures have been drafted in allowing remittances for Container Detention Charges and Registration of IT exporters. The same are under study with EPD.