

3 Foreign Exchange Operations

Foreign Exchange Operations Department (FEOD), SBP BSC provides operational support to Exchange Policy Department of SBP. The department monitors and oversees the foreign currency operations of commercial banks dealing in foreign exchange transactions. It also facilitates exporters in various incentive schemes announced by Federal Government in coordination with SBP for increasing export receipts.

3.1 Overview

With an addition of introducing online IT-based processing of foreign exchange allocation of government and semi-government institutions¹ in FY12, FEOD continued to deal with the matters relating to import and export payments and receipts. The routine operations included processing of export overdue cases, issuing show cause notices to the defaulting exporters with referring the cases to Foreign Exchange Adjudication Department (FEAD), allowing private remittances on various accounts, managing payment due on account of various incentive schemes of the government and handling monthly returns received from Authorized Dealers² (ADs). In addition to this, FEOD also conducted awareness programs and dedicated courses for all stakeholders including ADs to bridge the gaps in knowledge/perception and enable them to submit the cases complying with the mandatory requirements.

3.2 Measures to Strengthen Enforcement Mechanism of Export Overdue

During FY12, FEOD, as a part of its efforts to repatriate the export proceeds have undertaken several measures/ initiatives to improve the stuck-up overdue export proceeds which include:

- To streamline the procedure for availing finance under Export Refinance Schemes (EFS) and improve the realization from delinquent exporters, Infrastructure, Housing & SME Finance Department (IH&SMEFD), on the recommendation of FEOD, linked the EFS availability with Export Overdue. Accordingly, an exporter shall be eligible to avail financing under EFS if the total amount of overdue export bills at the time of availing the facility is not more than 5 percent of the previous year's export performance. The initiative in turn has improved the realization of past overdue bills to a large extent (**Table 3.1**).

Table 3.1: Cases Realized- Comparative Analysis

Period	Number of Cases		% of realized cases once reported in V-16
	Reported O/D*	Realized*	
FY11	140,862	113,726	80.7
FY12	150,594	124,644	82.8

*Increase in O/D by 6.9% but realization improved by 9.6%

- Instructions were issued to all ADs to report Document Against Payment (DP)/ Cash Against Documents (CAD) cases immediately when overdue. Previously these were

¹ Except for defense sector organizations and oil companies which are dealt with directly by Exchange Policy Department, SBP

² ADs are dedicated branches of commercial banks dealing in foreign exchange transactions as per SBP's instructions.

reported after six months.

- FEOD has undertaken several measures for speedy and timely lodging of complaints against exporters upon their failure to repatriate the export proceeds within stipulated timeframe. As a result, during FY12 aggregate cases referred to FEAD rose by 35.5 percent to reach 2,855 cases compared to same period last year.
- During FY12, as a result of rigorous follow-up and monitoring of export overdue cases, delinquent exporters have been served 18,054 show cause notices for speedy realization of overdue export proceeds compared to 10,096 notices in the same period last year.
- In addition to above, during the period under review, FEOD conducted several meetings with the Head of Trade of those bank having highest number of export overdue cases for timely submission of shipping documents/ pre-adjudication information to lodge complaints against exports in timely manner. As a result difference in statements, i.e., V-15³ & V-16⁴, in about 8,000 cases were reconciled during FY12 compared to 4,274 cases during the same period last year.

Thus, total outstanding export overdue cases decreased by 9.6 percent in FY12 compared to the same period last year. Consequently, amount realized through V-17⁵ has improved by 35.3 percent to reach US\$776.3 million by December 2011, compared to same period last year (Table 3.2).

Table 3.2: Amount Realized- Comparative Analysis

Year	No of E-form Realized on V-17 earlier reported overdue	Amount Realized in US Dollars (million)
CY10	13,234	573.6
CY11	17,052	776.3

3.3 Monitoring of Export of Raw Cotton

The department monitors and intervenes when necessary in bank guarantees mechanism involving raw cotton export cases. During FY12 an amount of Rs.3.5 million was deposited in the treasury on account of penalty on export of raw cotton as compared to Rs.3.0 million in the previous year. Strict monitoring resulted in saving an amount of US\$ 1.2 million. Steps involved in processing of Raw Cotton Export cases were reduced to dispose of the cases within 24 hours compared to the earlier three days processing time.

3.4 R&D support for textile exporters

R&D Support scheme for exporters of Garments started in 2005 and for Home Textile and Processed Fabrics in 2006. Both the schemes were applicable to exports made up to 30-06-2008. The department made full and final payments under these schemes. About Rs.50.0 million was allocated by the Ministry of Commerce, out of which only about Rs.10.4 million was utilized to pay eligible claims because many of the exporters did not have valid MINTEX registration and bank accounts of others had become non-operational/dormant, The remaining Rs.35.0 million was diverted to National Bank of Pakistan account for other schemes of the Ministry.

³ V-15 - Statement showing the total figures of all export bills outstanding (including partly unrealized).

⁴ V-16 -Statement in the prescribed form containing particulars of those export bills which have become overdue.

⁵ V-17- Statement showing realization of those bill are reported which was earlier reported on V-16 as overdue.

3.5 Drawback of local taxes and levies

The FEOD also acts on behalf of the government in the Drawback of Local Taxes and Levies (DLTL) collected from garments, home textile and processed fabric exporters. The scheme has been designed on the similar line of R&D and the intent is to provide financial space to the sector. During FY12, a total of 78,385 claims amounting to Rs 5,602.45 million⁶ were paid in all against the total budget allocated Rs.5, 610 million, out of which 37,205 claims were paid at Karachi alone.

3.6 Enhancing IT Applications

The FEOD undertook developmental projects to further modernize their in-house processes and introducing online processing and retrieval of information. A software has been developed in MS Office Access where detail of cases like purpose of the remittance, amount, name of the beneficiary, diary number, Form “M” number etc would be maintained. Online “Foreign Exchange Accounts Information System” is now running real-time at SBP BSC HOK and regional offices, moving from manual to automated environment enabled the department to work out various statistics instantly.

- Transactions are completed in minutes instead of days.
- FE Balances of various stakeholders are now available instantly.
- Receipts of Weekly/Monthly Statement of FE Transaction from field offices have been eliminated.

3.7 Enhanced role of internal monitoring and capacity building

Due to initiative taken by Internal Monitoring Unit (IMU) following achievements were made during FY12. They included:

- In the past approval had been granted for invoice amount of remittance subject to deduction of leviable taxes. To save National Exchequer from possible losses, department is now obtaining M form for the amount net of taxes and accordingly permission for remittances is granted with the advice to Authorized Dealer to ensure payment of Taxes as per rules in force. However, Tax payment receipts are called for from the Authorized Dealers on random basis to ensure the deposit of taxes in National Exchequers. Field Offices of SBP BSC have also been advised to follow the said procedure.
- DLTL (subsidy to textile exporter) claims on the realized amount should be made on the basis of spot rate rather than forward exchange rate.

3.8 Automation of vital data as mandatory as per Foreign Exchange Manual 2002

With regard to automation of the processes as per the Foreign Exchange Manual (FEM) 2002 directives, the department has been moving slowly but steadily to cover the lacunas related to time and resources. In this context following steps were taken.

- Receipt of foreign exchange returns through Head Offices/ Main Branches of ADs instead of 1,045 branches of Karachi Region as well as submission of one hard copy instead of three. The said step would result in saving HR as well as reduction of

⁶ cases received up to 31-01-2011

papers (approx 360,000 per year) which had to be preserved in record room for years.

3.9 Verification of EE/EF statement for export refinance under part II

Verification of export earnings and confirmation of realization is prerequisite for exporter/AD desirous to avail export refinance under part II of the scheme. Since all realization are being reported at FEOD HOK and FEOD's field units by the ADs, therefore role of FEOD is vital for timely verification so that limits may be fixed by the Refinance Section.

- During FY12, 502,170 entries have been verified at HOK and field offices as against 497,053 last year.
- Previously entries reported on A1/O1 were verified manually with the hard copies submitted by ADs during the year. In FY12 the same was verified through ITRS thereby saving time and human resource.

3.10 Future Outlook

The Department plans to make use of IT tools for further improving stakeholders' satisfaction. Efforts towards this goal in FY13 include:

- i) Implementation of e-DOX through ISTD which will lead to paperless environment & storage of Legal Documents;
- ii) Computerization of original E-form received from Customs after shipment at FEOD HOK as per Para 15 of Foreign Exchange Manual;
- iii) Designing a new project to enable smooth payment of D/LTL claims office wise so that the data is easily accessible to Authorized users of FEOD/ field offices instead of confining to only few officials;
- iv) Development of database of inward and outward remittance of commercial banks.