



**P@SHA**

Pakistan IT Industry Association

# Evaluating the Impact of Increased Retention Limits in ESFCAs on

## Pakistan's IT and ITeS Sector

The top half of the page features a dark, curved background. On the left, there is a red vertical bar. The background is filled with various digital and security-related icons, including a padlock, a Wi-Fi symbol, a gear, a fingerprint, and a network diagram. A person in a dark suit and light-colored tie is shown from the chest down, holding a tablet computer. The tablet screen displays a blue interface with the text 'A1' and some icons. The overall aesthetic is modern and technological.

# Introduction:

The IT and ITeS sector stands as a strong pillar to Pakistan's economy, contributing significantly to export revenue and job creation. Recognizing its potential, the government and industry stakeholders continuously strive to enhance its competitiveness and bolster the country's foreign exchange reserves. This collaborative effort is exemplified by the recent policy changes implemented by the State Bank of Pakistan (SBP) to support the thriving ecosystem of IT and ITeS exporters.

This report, undertaken by the Pakistan Software Houses Association (P@SHA) investigates the impact of a key policy measure – the increase in the retention limit in Exporters' Special Foreign Currency Accounts (ESFCAs) – on IT and ITeS exporters. Effective October 23, 2023, this policy raised the retention limit from 35% to 50% of export proceeds, offering greater flexibility in utilizing retained funds.

To understand the industry's perspective on this crucial policy change, P@SHA and PSEB conducted a comprehensive survey. Around 117 companies participated in the survey and thus, this report aims to provide valuable insights into the potential benefits associated with the increased retention limit.

# Methodology

To compile this report, a survey was crafted collaboratively by the Pakistan Software Houses Association (P@SHA) and the Pakistan Software Export Board (PSEB) to ensure it effectively captures the perspectives and experiences of industry stakeholders. The target population for the survey comprised IT and ITeS companies operating in Pakistan. To ensure a representative sample, efforts were made to reach out to a diverse range of companies across different sizes, sectors, and geographical locations within the country. A total of 117 companies voluntarily participated in the survey, providing valuable insights into the subject matter. Upon the completion of data collection, the responses were compiled and systematically analyzed. The data on some questions has been extrapolated on overall industry size to get a better idea about impact of increased retention limits in ESFCAs on Pakistan's IT and ITeS sector.

DIGITAL



NETWORK

DATA

## Does your company (or you as a Freelancer) maintain Exporters' Special Foreign Currency Account (ESFCA)?

The survey results reveal an interesting trend in utilization of Exporters Special Foreign Currency Accounts (ESFCA) among companies and freelancers. With 62.4% of respondents affirming their usage of ESFCA, it suggests a prevalent adoption of this specialized account for facilitating foreign currency transactions related to export activities. This high percentage underscores the perceived importance and benefits of the ESFCA in managing international trade operations efficiently.

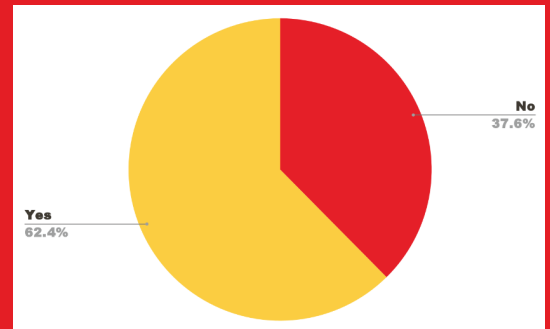


Figure 1: Companies (or Freelancer) maintaining Exporters' Special Foreign Currency Account (ESFCA)

Conversely, the 37.6 percent of respondents who do not maintain ESFCA reflect a notable portion of businesses or freelancers that have opted not to utilize this financial instrument. This could stem from various reasons such as alternative methods of handling foreign currency transactions, limited exposure to international markets, or perhaps regulatory and administrative complexities associated with maintaining ESFCA.

## If you chose to retain up to 50%, did your bank facilitate the process?

To assess the IT industry's experience with the elevated ESFCAs retention limit, we investigated whether companies could retain up to the new 50% threshold. We queried participants on their banks' facilitation of this process. The responses are further illustrated in a separate chart, highlighting the specific banks that did not currently facilitate the increased retention limit as of the survey date. This information provides valuable insights into the implementation status across different financial institutions and potential areas for further collaboration between exporters and banks to ensure full utilization of the revised policy.

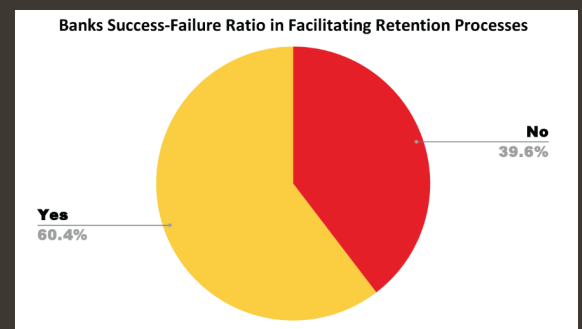


Figure 2: Banks Success-Failure Ratio in Facilitating Retention Processes.

To provide a clearer picture of the current landscape, a separate chart showcases the specific banks that, at the time of the survey, were not yet facilitating the increased retention limit for IT and ITeS exporters. This information offers valuable insights into the implementation status across different financial institutions and highlights potential areas for collaboration to ensure all IT and ITeS exporters can fully benefit from the revised policy.

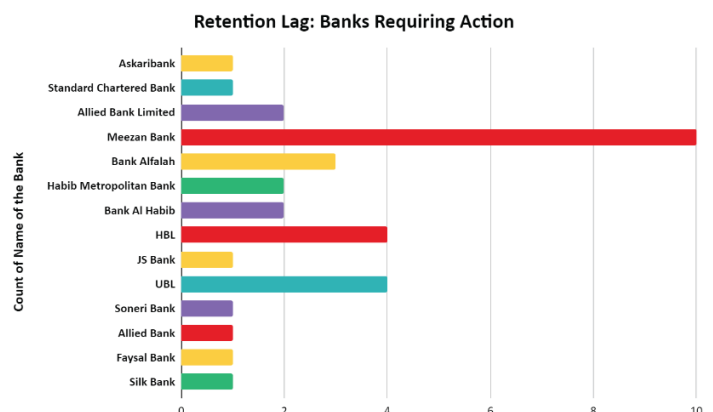


Figure 3: List of Banks that require action as they are not quick with the ESFCA Facilitation Process.

# What percentage of export remittance receipts are maintained by you/your company in ESFCA?

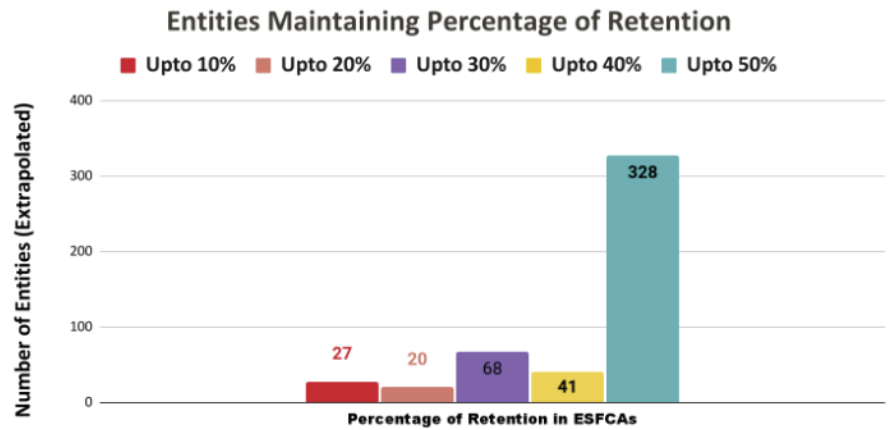


Figure 4: Companies Maintaining a Percentage of Retention in their ESFCAs

The breakdown of responses regarding the percentage of export remittance receipts maintained in Exporters' Special Foreign Currency Accounts (ESFCA) provides valuable insights into the utilization patterns of this facility among respondents.

The data shows that a considerable proportion of respondents, with 328 responses, opt to keep up to 50% of their export remittance receipts in ESFCA. This indicates a widespread practice of relying on ESFCA to manage a significant portion of their foreign currency transactions related to exports.

Furthermore, while smaller in number, there are still notable groups among respondents who allocate different percentages of their export remittance receipts to ESFCA. For instance, 41 respondents maintain up to 40%, 68 respondents manage up to 30%, 20 respondents keep up to 20%, and 27 respondents allocate up to 10% of their export remittance receipts to ESFCA.

Such diverse distribution suggests varying degrees of reliance on ESFCA among businesses and freelancers. Factors influencing these decisions could include considerations such as the volume of export transactions, risk management strategies, regulatory compliance requirements, and individual preferences regarding foreign currency management.

## Have you been issued an FCY debit card if your company (or you as a Freelancer) maintain Exporters' Special Foreign Currency Account (ESFCA)?

Number of Companies issued FCY Debit Card against their ESFCA

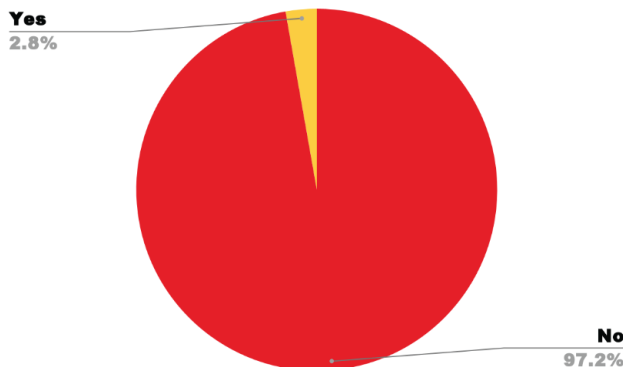


Figure 5: Number of Companies issued FCY Debit Card against their ESFCA



All commercial banks are required to provide Foreign Currency (FCY) debit cards to companies and freelancers maintaining Exporters' Special Foreign Currency Accounts (ESFCA). Astonishingly, it is revealed by the survey that more than 97% of the banks have not issued FCY debit cards to holders of the ESFCA. This revelation begs a thorough investigation into the matter: whether the banks are not cooperating in this matter or are there any technical issues on part of the State Bank or the holders of the ESFCA are unable to provide required documentation/information needed to acquire an FCY debit card.

# POSHIA

## ◆ Conclusion

In view of the above-generated graphs, it is concluded that the policy initiative taken by the State Bank of Pakistan in the shape of the increase in the retention limit in Exporters' Special Foreign Currency Accounts (ESFCAs) has proven to be beneficial for the industry. This move has likely spurred increased retention of export earnings within the country, potentially leading to positive impacts.

However, it is imperative to note that this directive has not been yet implemented throughout the country. This inconsistency creates a situation where some exporters can leverage the benefits of the increased retention limit, while others are left behind. For the policy to achieve its full potential, widespread adoption across all banks and branches is crucial.

Similarly, the issuance of debit cards against the ESFCA has been on the lag. This hinders the usability of the retained funds, potentially discouraging exporters from fully utilizing the increased retention limit. Whether the cause is technical or procedural, the State Bank of Pakistan needs to take active steps to address this issue. A streamlined and efficient debit card issuance process would significantly enhance the effectiveness of the policy. Furthermore, to enhance efficiency, SBP should work towards streamlining international transactions for exporters via the user-friendly mobile apps of local banks.

Lastly, by ensuring nationwide implementation and facilitating the issuance of debit cards, the State Bank of Pakistan can unlock the full potential of the increased ESFCA retention limit. This policy, when fully operational, can significantly contribute to the growth and competitiveness of the export sector, ultimately benefiting the entire Pakistani economy.



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