BOX 7
Monitoring of Export Proceeds Repatriations and Conversions

Introduction

The external sector of Sri Lanka experienced heightened vulnerabilities with the decline in foreign exchange inflows due to unprecedented challenges in recent years, amidst the outbreak of the COVID-19 pandemic and adverse developments in the global economy. The current account deficit widened due to the increased imports led by the normalisation of economic activities, moderation in tourism earnings and slowdown in workers' remittances. Downgrading of the sovereign credit ratings of the country constrained the access to global capital markets despite high debt servicing requirements, further aggravating the situation. In view of mounting imbalances in the external sector due to the lack of foreign exchange inflows, several measures were taken to improve foreign currency liquidity in the domestic foreign exchange market and to replenish international reserves. These included establishing rules (Table B 7.1) mandating repatriation of export proceeds to the country within 180 days and conversion of such receipts into Sri Lanka rupees under the provisions of the Monetary Law Act No. 58 of 1949 (MLA) in 2021, with a view to effectively enforcing such requirements.

Evolution of Policies Related to Export Proceeds Repatriation and Conversion

For any economy, exports form a very important source of foreign exchange inflows that help build buffers against external shocks. Having identified the importance of the exports, successive Governments in Sri Lanka have put in place policies that are conducive for building a vibrant exports sector. However, to obtain the maximum benefits of the export sector, a country needs to ensure that export proceeds are repatriated so that there would be no strain on the Balance of Payments. The requirement to repatriate export proceeds into Sri Lanka was initially imposed during 1973 under the repealed Exchange Control Act No. 24 of 1953 (ECA) and continued until 1993. This requirement for repatriation and surrender was liberalised subsequent to accepting Article VIII of the International Monetary Fund (IMF) Articles of Agreement in 1994, as part of further liberalisation of current account transactions and continuation of the country's stabilisation programme. Accordingly, exporters were permitted to repatriate export proceeds and hold those in rupee or foreign currency accounts in Sri Lanka or retain them in foreign currency accounts in a bank abroad. However, the repatriation requirement was re-introduced in April 2016 under the ECA, requiring every exporter of goods to repatriate proceeds to Sri Lanka initially within 90 days from the date of exportation. This was subsequently extended up to 120 days. With the enactment of the Foreign Exchange Act, No. 12 of 2017 (FEA) these regulations were re-issued and in October 2019 further extended to 180 days. It is pertinent to mention that some of the regional economies which could be considered economic peers of Sri Lanka also have similar policies in place to ensure that such economies optimise the receipt of export proceeds (Table B 7.2).

How Export Proceeds Help to Build Reserves

Once export proceeds are repatriated, part of the proceeds will be utilised to meet obligations in foreign currency, such as authorized payments. If the balance is sold to Authorised Dealers[1] (ADs) in foreign exchange, such proceeds will be added to the domestic foreign exchange market increasing the liquidity. Similarly, inflows from other foreign exchange sources which are sold to ADs, such as workers' remittances, tourism earnings and foreign investments flows will also contribute to increase the domestic market liquidity. The banking system needs to accommodate various foreign exchange requirements of its customers, both of current and capital nature, for which the foreign currency so purchased will be utilised. The Central Bank of Sri Lanka (CBSL) may build up its reserves by purchasing foreign exchange from the domestic foreign exchange market. The major advantage of export proceeds is that they are non-debt creating inflows which exert no strain on the Balance of Payments.

Existing Rules on Repatriation of Export Proceeds into Sri Lanka issued under the MLA (Rules)

Considering the anticipated serious decline in the international reserves which could lead to an imminent threat to the stability of the Sri Lanka rupee, the CBSL took immediate measures to preserve the position by adopting necessary policies including introduction of Rules on export proceeds repatriation and conversion requirements under the provisions of the MLA (Table B 7.1).

In terms of the prevailing Rules (Table B 7.1), it is mandatory to receive the export proceeds into Sri Lanka,

1 A bank licensed under the Banking Act, No. 30 of 1988.

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Table B 7.1
The Rules Issued in terms of the Provisions of the MLA

Name of the Rule	Key features
Repatriation of Export Proceeds into Sri Lanka Rules No. 1 of 2021, issued on 18.02.2021	• Receive the export proceeds in Sri Lanka in respect of all goods exported within 180 days from the date of shipment. • Convert 25% of the total exports proceeds into Sri Lanka rupees, immediately upon the receipt of such export proceeds into Sri Lanka.
Repatriation of Export Proceeds into Sri Lanka Rules No. 2 of 2021 (Amendment to Rules No.01), issued on 09.03.2021	• Convert 25% of the total exports proceeds received in Sri Lanka into Sri Lanka rupees within 14 days of receipt.
Repatriation of Export Proceeds into Sri Lanka Rules No. 3 of 2021 (Amendment to Rules No. 02), issued on 09.04.2021	• Convert 10% of the total exports proceeds received in Sri Lanka into Sri Lanka rupees within 30 days of receipt.
Repatriation of Export Proceeds into Sri Lanka Rules No. 4 of 2021 (Amendment to Rules No. 3), issued on 28.05.2021	• Convert not less than 25% of the total export proceeds received in Sri Lanka, into Sri Lanka rupees within 30 days of receipt.
Repatriation of Export Proceeds into Sri Lanka Rules No. 5 of 2021, (Rescinded previous Rules No. 1, 2, 3 & 4), issued on 28.10.2021	• Mandatorily receive the export proceeds in Sri Lanka, in respect of all goods exported or services provided outside Sri Lanka, within 180 days from the date of shipment or provisioning of services. • Mandatorily convert the residual of the export proceeds received in Sri Lanka into Sri Lanka rupees, upon utilising such proceeds only in respect of the authorised payments.
Repatriation of Export Proceeds into Sri Lanka Rules No. 1 of 2022 (Rescinded Rules No. 5 of 2021), issued on 11.03.2022	• Mandatorily receive the export proceeds in Sri Lanka, in respect of all goods exported or services provided outside Sri Lanka, within 180 days from the date of shipment or provisioning of services. • Mandatorily convert residual of the export proceeds received in Sri Lanka into Sri Lanka rupees, upon utilising such proceeds only in respect of the authorised payments. • Permitted payments to local suppliers and exemptions for exporters that are Strategic Development Projects.
Repatriation of Export Proceeds into Sri Lanka Rules No. 2 of 2022 (Amendment to Rules No. 1 of 2022), issued on 12.08.2022	• Remove the requirement to convert export proceeds repatriated into Sri Lanka in relation to service exports.

in respect of all goods exported or services provided outside Sri Lanka, within 180 days from the date of shipment or provisioning of services. Further, every exporter of goods who receives export proceeds in Sri Lanka, is required to mandatorily convert[2] the residual of the export proceeds received in Sri Lanka, into Sri Lanka rupees upon utilising such proceeds only in respect of the authorised payments, which could provide an immediate impact on the liquidity of the domestic exchange market whilst allowing for foreign currency requirements of the business. These authorized payments are, outward remittances for current transactions related to the particular export, withdrawal in foreign currency notes or transfer of funds for travel purposes, debt servicing expenses and repayments of permitted borrowings, payments for investments in Sri Lanka Development Bonds, authorised payments to local suppliers, payment of dividends to non-resident investors, salaries to expatriate employees and one month commitments related to export of goods and services.

Considering the developments in the domestic foreign exchange market, conversion requirements imposed by these Rules are reviewed and revised continuously.

2 Upon utilisation of export proceeds for permitted authorised payments, exporters convert export proceeds for their local currency requirements of day-to-day business activities and any residues of the export proceeds shall be mandatorily converted on or before the seventh (7th) day of the following month.

As per the requirements of the Rules, ADs are required to strictly monitor the monthly receipts of export proceeds, ensure that the conversion is within the stipulated period of repatriation and verify that the authorised payments are related to the particular export of goods/services. At present, periodic information related to repatriation of export proceeds and the conversions are reported manually to the CBSL and Department of Foreign Exchange (DFE) inspects and examines the records provided by ADs to ensure full and strict compliance with the provisions of the Rules. The Rules empower the Director of the DFE to monitor and initiate actions against any non-compliance by exporters and ADs.

Accordingly, all ADs must submit the following monthly information on export proceeds repatriation and its conversion to DFE on or before the 15th of the next month.

- Export proceeds repatriations in respect of all export of goods and/or services provided outside Sri Lanka received within 180 days from the date of shipment or provisioning of services.
- Conversions of foreign currency to Sri Lanka rupee out of the export proceeds received upon utilising such proceeds for allowed authorised payments.
- Details of authorised payments out of goods export proceeds repatriation within 180 days.

Table B 7.2

Main Forex Regulations Related to Exports Proceeds Repatriation and Conversion in Selected Countries

Country	Repatriation Requirement	Applicability to Goods/Services Exports	Conversion Requirement
India	Within 15 months	Both goods and services	Foreign exchange earners are allowed to credit 100% of their foreign exchange earnings to a foreign currency account. The accruals in the account should be converted into rupees on or before the last day of the succeeding month after adjusting for utilisation of the balances for approved purposes or forward commitments.
Bangladesh	Within 7 months	Both goods and services	85% of exports of ready-made garments and other goods with high import content and 40% of the proceeds from exports of other merchandise and services exports.
Pakistan	Within 6 months	Both goods and services	85%-98% of exports proceeds of goods and 65% of services exports proceeds.
Malaysia	Within 24 months if the amount of export proceeds does not exceed RM 200,000 and within 6 months in other cases	Goods only	Since April 2021, exporters may manage the conversion of export proceeds according to their foreign currency cash flow needs. Prior to 2018, 75% of exports proceeds were to be converted.
Thailand	Within 1 year	Both goods and services	Export proceeds of an amount equivalent to US dollars 1 million or above must be repatriated and converted into Thai baht immediately after payment is received.
Turkey	Within 180 days	Goods only	At least 80% of the export proceeds need to be sold to a bank.

Sources: 2020 Annual Report on Exchange Arrangements and Exchange Restrictions of the IMF and Respective Central Bank websites

- Permitted payments in foreign currency out of the export proceeds to the local suppliers and their conversions.
- Export proceeds not repatriated within 180 days from the date of shipment or provisioning of services, in line with the requirement of the Rules on export proceeds repatriation.
- Export proceeds repatriations received exceeding 180 days from the date of shipment or provisioning of services and conversions.

Monitoring of compliance with the Rules

Based on the information reported by ADs on monthly basis, the CBSL requests exporters who do not repatriate export proceeds within 180 days from the date of shipment or provisioning of services to provide explanations for same. Based on the responses, the possibility of initiating legal actions for exporters who do not comply with the Rules on requirement of repatriation of export proceeds into Sri Lanka, is considered by the CBSL. Further, the utilisation of export proceeds for authorised payments are strictly monitored and inquiries are made from ADs in order to ensure ADs permit payments which are authorised by the Rules.

In addition to the monthly monitoring of the repatriation and conversion of export proceeds, the CBSL carries out investigations on selected exporters on their repatriation and conversion of export proceeds by requesting information directly from such exporters. This has enabled the CBSL to verify the information reported by ADs and has facilitated streamlining of data reporting. Special investigations on foreign currency loans granted by ADs, payments to local suppliers, conversions by local suppliers etc. are also carried out by the CBSL to ensure that the utilisation and conversion of export proceeds are in line with the Rules.

Further, the CBSL conducts one-on-one meetings with exporters, sector wise meetings, meetings with compliance officers and discussions with other stakeholders of the export sector to enhance awareness on the prevailing Rules and ensure strict compliance with the same.

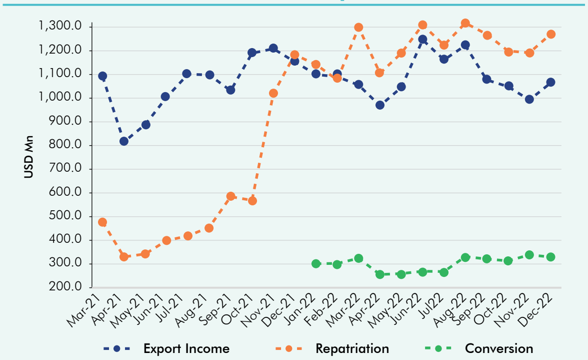
Timely imposition of Rules together with the subsequent stringent monitoring has resulted in a notable improvement in the repatriation of export proceeds since October 2021 (Figure B 7.1). Merchandise goods and service exports repatriation during the year 2022 amounted to US dollars 17,755.8 million, where the repatriation of goods amounted to US dollars 14,595.7 million and repatriation of services exports amounted to US dollars 3,160.1 million. The export value of merchandise goods and services for the year 2022 was US dollars 16,168.8 million.

Meanwhile, monthly total conversions relating to exports of merchandise goods and services as a percentage of export proceeds repatriated have ranged between 20.6%-28.5% during the year 2022 (Figure B 7.2 and Figure B 7.3). Attentive surveillance on the utilisation of export proceeds for authorised payments enabled a gradual pickup in conversion of repatriations during the latter part of the year. The total converted value of merchandise goods and service exports amounted to US dollars 4,220.2 million for the year 2022, comprising conversion of merchandise goods amounting to US dollars 3,614.6 million and conversion of service exports amounting to US dollars 605.6 million.

Export Proceeds Monitoring System (EPMS)

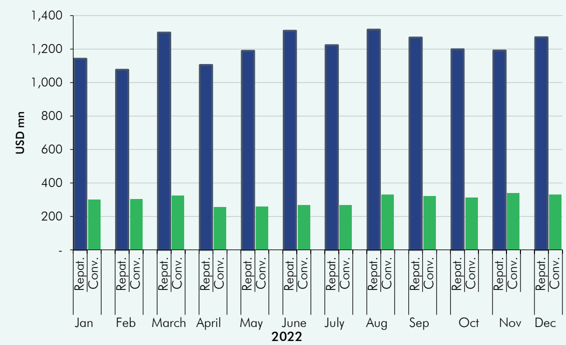
In view of the need to efficiently monitor the repatriation of export proceeds, the Export Proceeds Monitoring System (EPMS), an IT based automated monitoring system, was launched in June 2022. This system facilitates monitoring of repatriation of export proceeds within the prescribed time period and conversion of export proceeds into the local currency in order to achieve the objective of introducing the Rules. The system is expected to enhance

Figure B 7.1
Trends in Exports, Repatriation and Conversion of Merchandise Goods Export Proceeds



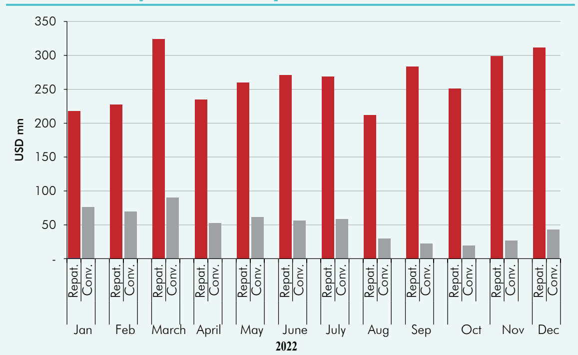
Sources: Central Bank of Sri Lanka & Sri Lanka Customs

Figure B 7.2
Trends in Repatriation and Conversion of Merchandise Goods: January - December 2022



Source: Central Bank of Sri Lanka

Figure B 7.3
Trends in Repatriation and Conversion of Service Exports: January - December 2022

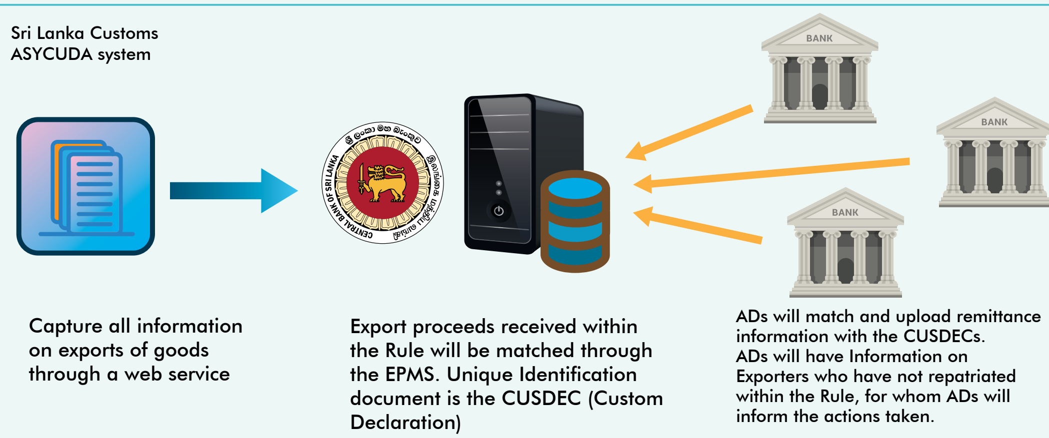


Source: Central Bank of Sri Lanka

the efficiency of reporting and monitoring by minimising manual data processing and duplication of data entry at various stages.

The CBSL, Sri Lanka Customs (SLC) and ADs are the three main participants in the system. SLC shares details

Figure B 7.4: Overview of the EPMS



Source: Central Bank of Sri Lanka

of all exports which are shipped out of the country in the EPMS whilst ADs report details of repatriations and conversions linked to such exports to the EPMS (Figure B 7.4). Accordingly, more accurate details of exports will be available in the future. The system will facilitate detecting where proceeds have not been repatriated within the stipulated time period and taking actions against non-compliant exporters.

The EPMS has continued to evolve since its introduction in June 2022 and certain technical lapses, such as those in the process of uploading by ADs of export remittance data based on CUSDECs[3], have been successfully resolved. At present, IT solutions which link the exporters with ADs are being developed to simplify the provision of information. Accordingly, barriers in receiving and matching information on the export receipts against the CUSDECs, especially on open account transactions, will be minimised. Hence, this system will improve the efficiency of the export proceeds repatriation monitoring mechanism and streamline the repatriation of export proceeds into the country, through a national system linking related information of the CBSL, SLC and ADs in the future.

The success of monitoring and follow up of export transactions via this system can only be achieved by effective collaboration of all the stakeholders of the system. Hence, it is the responsibility of all participants of this system to work towards the success of this national effort.

3 Custom Declaration

References

1. The Central Bank of Sri Lanka Annual Reports
2. Rules on Repatriation of Export proceeds into Sri Lanka

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