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MONETARY AND CREDIT INFORMATION REVIEW

POLICY

PMRY Guidelines Revised

The terms and conditions of the Prime Minister's Rozgar Yojana (PMRY) have been revised. The revised guidelines are -

- The family income ceiling has been enhanced from Rs.40,000 per annum to Rs.1 lakh per annum.
- The project cost has been enhanced from Rs. 1 lakh to Rs.2 lakh for business/service sector and from Rs.2 lakh to Rs.5 lakh for the industry sector.
- Ceiling on subsidy has been enhanced from Rs.7,500 to Rs.12,500 per beneficiary except in the north - eastern states (including Sikkim), Himachal Pradesh, Uttarakhand and Jammu and Kashmir, where the ceiling would remain at Rs.15,000 per beneficiary.
- The ceiling on subsidy for self help groups (SHGs) has been enhanced to Rs.15,000 per beneficiary subject to a maximum amount of Rs. 1.25 lakh per SHG.
- The scheme would be implemented in the rural as well as the urban areas.
- Banks should make efforts to achieve the target (i.e., complete disbursement of loan and subsidy) by the end of March, 2008.
- While processing fresh applications, the district industry centres (DICs) of the respective state/union territory (UT) should be requested to take into account applications already pending with them so that such persons are not required to apply afresh.
- The scheme envisages coverage of scheduled caste (SC)/ scheduled tribe (ST) and minority candidates at least equal to their population in the district/state. The percentage, however, should not be less than 22.5 per cent for SC/STs, 27 per cent for other backward classes (OBCs) and 30 per cent for women. Equitable share for minorities should also be ensured.
- All efforts should be made to improve loan recovery under the scheme.
- The number of sponsored cases should be 125 per cent of the assigned target.
- For 2006-07, the date of validity of sanction and completion of disbursement has been extended up to June 30, 2007. This would not be extended further.

Revision of Differential Rate of Interest Scheme

In his Budget Speech for 2007-08, the Hon'ble Finance Minister had proposed to raise the limit of loan under the differential rate of interest (DRI) scheme from Rs 6,500 to Rs 15,000 and the limit of housing loan from Rs 5,000 to Rs 20,000 per beneficiary.

Banks have, therefore, been advised to issue necessary instructions to their controlling/branch offices to ensure that the revised guidelines are implemented immediately. The target for lending under the DRI scheme would continue to be 1 per cent of the previous year's total advances, as earlier. The other terms and conditions of the scheme remain unchanged.

In March, 1972, the Government of India had formulated a scheme for extending financial assistance at concessional rate of interest at the rate of 4 per cent p.a. to selected low income groups for productive endeavours.

CONTENTS

PMRY – Salient Features

The Prime Minister's Rozgar Yojana (PMRY) for providing self-employment to educated unemployed youth of economically weaker sections has been in operation since October 2, 1993. The scheme aims at assisting the eligible youth in setting up self-employment ventures in industry, service and business sectors. The salient features of the scheme are :

Age Limits

(i) 18 to 35 years for all educated unemployed.

(ii) 18 to 40 for all educated unemployed in north-east states, Himachal Pradesh, Uttarakhand and Jammu and Kashmir.

(iii) 18 to 45 years for scheduled castes/scheduled tribes, ex-servicemen, physically disabled and women.

Educational Qualification

The beneficiary should have passed Standard VIII. Preference is given to those who have been trained for any trade in government recognised/approved institutions for a duration of at least six months.

Family Income

Neither the income of the beneficiary along with his/her spouse nor the income of the beneficiary's parents should exceed Rs.1,00,000 per annum.

Residence

The beneficiary should be a permanent resident of the area for at least 3 years (relaxed for married men in Meghalaya and for married women in the rest of the country. For married men in Meghalaya and for married women in the rest of the country, the residency criteria applies to the spouse or in-laws.

Defaulter

The beneficiary should not be a defaulter to any nationalised bank/financial institution/co-operative bank. A person already assisted under other subsidy linked government schemes would not be eligible under this scheme.

Activities Covered

All economically viable activities are permitted including agriculture and allied activities but excluding direct agricultural operations like raising crop, purchase of manure, etc.

Project Cost

Rs.2 lakh for business/service sector and Rs. 5 lakh for industry sector. Loan should be of composite nature. If two or more eligible persons join together in a partnership, project up to Rs.10 lakh is covered. Assistance would be limited to individual admissibility.

Subsidy/Margin Money

Subsidy is limited to 15 per cent of the project cost subject to a ceiling of Rs.12,500 per entrepreneur. Banks are allowed to take margin money from the entrepreneur varying from 5 per cent to 16.25 per cent of the project cost so as to make the subsidy and the margin money together equal to 20 per cent of the project cost.

For north-eastern states, Himachal Pradesh, Uttarakhand and Jammu and Kashmir, the subsidy is 15 per cent of the project cost subject to a ceiling of Rs.15,000 per entrepreneur. Margin money contribution from the entrepreneur may vary from 5 per cent to 12.5 per cent of the project cost so as to make the subsidy and the margin money together equal to 20 per cent of the project cost.

Collateral

No collateral for units in industry sector with project cost up to Rs.5 lakh (the loan ceiling under PMRY). For partnership projects under industry sector, the exemption limit for obtaining collateral security is Rs. 5 lakh per borrower account. For units in service and business sector, no collateral for project up to Rs.2 lakh. For partnership project, exemption from collateral is limited to an amount of Rs.2 lakh per person participating in the project cost.

Rate of Interest/Repayment Schedule

Normal rate of interest shall be charged. Repayment schedule may range from 3 to 7 years after an initial moratorium as may be prescribed.

SHGs

SHGs can be considered for assistance under the Scheme provided:

- Educated unemployed youth who satisfy the eligibility criteria laid down under the Scheme volunteer to form SHG to set up self-employed ventures (common economic activity).
- A SHG may consist of 5 -20 educated unemployed youth.
- No upper ceiling on project cost.
- Loan may be provided as per individual eligibility taking into account requirement of the project.
- A SHG may undertake common economic activity for which loan is sanctioned without resorting to onward lending to its members.
- The subsidy ceiling for SHG is Rs. 15,000 per beneficiary subject to a maximum of Rs. 1.25 lakh per SHG.
- Subsidy may be provided to the SHG as per the eligibility of individual members taking into account relaxation provided in north-eastern states, Uttarakhand, Himachal Pradesh and Jammu and Kashmir.
- Required margin money contribution (subsidy and margin to be equal to 20 per cent of the project cost) should be brought in by the SHG collectively.
- The exemption limit for obtaining collateral security is Rs.5. lakh per borrowal account for projects under industry sector. Exemption from collateral is limited to an amount of Rs.2 lakh per member of SHG for projects under service and business sectors. Banks may consider enhancement in limit of exemption of collateral in deserving cases.
- Implementing agencies may decide necessity of pre-disbursal training for all the members/majority of the members of the group.

TDS on 8 % Savings Bonds, 2003

The Reserve Bank has advised banks that in terms of Government of India's notification dated May 31, 2007, tax should be deducted at source on interest exceeding rupees ten thousand payable during the financial year, on 8 per cent Savings (Taxable) Bonds, 2003 from June 1, 2007.

RRBs

Participation in Consortium Lending

With a view to providing more business avenues and opportunities to regional rural banks (RRBs) for lending, they have been permitted to participate in consortium lending, within the extant exposure limits, with their sponsor banks as also with other public sector banks and development financial institutions (DFIs). Such permission is subject to the condition that the project to be financed is in the area of operation of the RRB concerned and guidance and appraisal of the project is provided by its sponsor bank.

Setting up Service Branches/CPCs/Back Offices

RRBs have been allowed to set up service branches/ central processing centres (CPCs)/offices exclusively to attend to back office functions, such as, data processing, verification and processing of documents and also issuance of cheque books, demand drafts, etc., and other functions incidental to their banking business. These offices should have no interface with customers and would not be allowed to be converted into general banking branches. These offices would be treated on par with a branch and RRBs are required to obtain necessary licence from the Reserve Bank's concerned regional office.

FEMA

Opening of Escrow/Special Accounts by Non-Resident Corporates

AD Category – I banks have been permitted to open escrow account and special account on behalf of non-resident corporates, without the Reserve Bank's prior approval for acquisition/transfer of shares/convertible debentures through open offers/delisting/exit offers, subject to the relevant Securities and Exchange Board of India (SEBI) [Substantial Acquisition of Shares and Takeovers (SAST)] Regulations, 1997 or any other applicable SEBI regulations/provisions of the Companies Act, 1956 and to the terms and conditions specified below –

(i) Acquisition/transfer of shares should be strictly in accordance with the provisions of FEMA Notification No. 20/ 2000-RB dated May 3, 2000 as amended from time to time and SEBI (SAST) Regulations, 1997 or any other SEBI regulations as applicable.

(ii) The accounts shall be non-interest bearing.

(iii) Escrow account may be opened in Indian rupees, jointly and severally, with permitted credits and debits as indicated below :

Permitted credits : foreign inward remittance through normal banking channels.

Permitted debits : as per SEBI (SAST) Regulations or any other SEBI regulations, as applicable.

(iv) Special account may be opened in rupees, jointly and severally, with credits and debits as per SEBI (SAST) Regulations or any other SEBI regulations, as applicable.

(v) The resident mandatee empowered by the overseas acquirer for this purpose, may operate the escrow account in accordance with SEBI regulations, and with the specific approval of the AD Category – I bank with whom the account has been opened.

(vi) No fund based/non-fund based facilities should be permitted against the balance in the accounts.

(vii) The AD Category - I bank should comply with the 'know your customer' guidelines issued by the Reserve Bank.

(viii) Balance in the escrow account, if any, should be repatriated at the then prevailing exchange rate (the exchange rate risk would be borne by the overseas company acquiring the shares), after all the formalities in respect of the acquisition are completed.

(ix) If the acquisition/transfer proposal does not materialise, the AD Category – I bank may allow repatriation of the entire amount lying to the credit of the escrow account on being satisfied with the bonafides of such remittances.

(x) The accounts should be closed immediately after completing the requirements as indicated above.

Norms for MF Investment in Overseas Securities Liberalised

To enable mutual funds (MFs) to tap a larger investible stock overseas, they have been permitted to invest in –

(i) Overseas mutual funds that make nominal investments (to the extent of 10 per cent of net asset value) in unlisted overseas securities;

(ii) Overseas exchange traded funds that invest in securities; and

(iii) American depository receipts (ADRs)/global depository receipts (GDRs) of foreign companies.

Foreign Investments in Debentures

The Reserve Bank has clarified that henceforth, only instruments which are fully and mandatorily convertible into equity, within a specified time would be reckoned as part of equity under the foreign direct investment (FDI) policy and eligible to be issued to persons resident outside India under the FDI scheme.

Foreign institutional investors (FIIs) registered with SEBI, would be eligible to invest as hitherto, in listed non-convertible debentures/bonds issued by Indian companies in terms of Reserve Bank/SEBI norms on investment in rupee debt instruments, including the ceilings prescribed from time to time.

Companies which have already received funds from outside India for issue of partially/optionally convertible instruments on or before June 7, 2007 may issue such instruments. The existing investments in instruments which are not fully and mandatorily convertible into equity may continue till their current maturity.

Foreign Investments in Preference Shares

The Government of India has notified the revised guidelines for foreign investment in preference shares. The revised guidelines which came into effect from April 30, 2007 are -

(a) Foreign investment coming as fully convertible preference shares would be treated as part of share capital. This would be included in calculating foreign equity for

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purposes of sectoral caps on foreign equity, where such caps have been prescribed.

(b) Foreign investment coming as any other type of preference shares (non- convertible, optionally convertible or partially convertible) would be considered as debt and would require conforming to external commercial borrowing (ECB) guidelines/caps.

(c) Any foreign investment as non-convertible or optionally convertible or partially convertible preference shares as on and up to April 30, 2007 would continue to be outside the sectoral cap till their current maturity.

(d) Issue of preference shares of any type would continue to conform to the guidelines of the Reserve Bank/SEBI and other statutory bodies and would be subject to all statutory requirements.

Accordingly, with effect from May 1, 2007, only preference shares which are fully and mandatorily convertible into equity within a specified time would be reckoned as part of share capital and eligible to be issued to persons resident outside India under the FDI scheme.

Foreign investments in other types of preference shares (i.e. non-convertible, optionally convertible or partially convertible) for issue of which, funds have been received on or after May 1, 2007 would be considered as debt and should conform to ECB guidelines/caps. Accordingly, all the norms applicable to ECBs, viz., eligible borrowers, recognised lenders, amount and maturity, end-use stipulations, etc., would apply. Since these instruments would be denominated in rupees, the rupee interest rate would be based on the swap equivalent of LIBOR plus the spread as permissible for ECBs of corresponding maturity.

Companies which have received funds from outside India for issue of partially/optionally convertible or redeemable preference shares on or up to April 30, 2007 may issue such instruments. The existing investments in such preference shares which are not fully convertible may continue till their current maturity.

Remittance on Winding up of Companies

AD Category - I banks have been permitted to allow remittance out of the assets of Indian companies under liquidation under the provisions of the Companies Act, 1956, subject to conditions as follows :

- The AD Category - I bank should ensure that the remittance is in compliance with the order issued by a court in India/official liquidator or the liquidator in case of voluntary wind up.
- No remittance should be allowed unless the applicant submits -

  (i) No objection or tax clearance certificate from the Income Tax authority for the remittance;

  (ii) Auditor's certificate confirming that all liabilities in India have been either fully paid or adequately provided for;

  (iii) Auditor's certificate stating that the winding up is in accordance with the provisions of the Companies Act, 1956; and

  (iv) In case of winding up otherwise than by a court, an auditor's certificate stating that there is no legal proceeding pending in any court in India against the applicant or the company under liquidation and there is no legal impediment in permitting the remittance.

Remittance for Import of Equipments by BPO Companies

AD Category – I banks have been advised to allow business process outsourcing (BPO) companies in India to make remittances towards the cost of equipment to be imported and installed at their overseas sites.

The remittances would, however, be subject to conditions indicated below:

(i) The BPO company should have obtained necessary approval from the Ministry of Communications and Information Technology, Government of India and other authorities concerned for setting up the International Call Centre (ICC).

(ii) The remittance should be allowed based on the AD Category – I bank's commercial judgement, the bonafides of the transaction and strictly in terms of the contract.

(iii) The remittance is made directly to the account of the overseas supplier.

AD Category – I banks should also obtain a certificate as evidence of import from the chief executive officer (CEO) or auditor of the importer company that the goods for which remittance was made have actually been imported and installed at overseas sites.

Operation of NRO Account by Power of Attorney Holder

The Reserve Bank has advised banks to allow operations on a non-resident rupee ordinary (NRO) account by power of attorney granted in favour of a resident by a non-resident individual account holder. Accordingly, banks may in terms of such a power of attorney, allow operations on an NRO account provided, such operations are restricted to-

(i) all local payments in rupees including payments for eligible investments subject to compliance with relevant regulations made by the Reserve Bank; and

(ii) remittance outside India of current income in India of the non-resident individual account holder, net of applicable taxes.

The resident power of attorney holder is not permitted to repatriate outside India funds held in the account other than to the non-resident individual account holder nor to make payment by way of gift to a resident on behalf of the non-resident account holder or transfer funds from the account to another NRO account.

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