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MONETARY AND CREDIT INFORMATION REVIEW

POLICY

Self Employment Scheme for Rehabilitation of Manual Scavengers

The Government of India has recently approved a new scheme named "Self Employment Scheme for Rehabilitation of Manual Scavengers" (SRMS) aimed at rehabilitating the scavengers and their dependents by March 2009. The approved scheme contains provisions for capital subsidy, concessional loans and capacity building for rehabilitation of manual scavengers in alternative occupations. Further, the Government of India desires that the scheme should be administered as a national priority. The successful implementation of the Scheme would depend upon effective participation and monitoring of the scheme by public sector banks (PSBs) at all controlling levels. The particulars of the Scheme and the broad guidelines to be followed by PSBs are:

Eligibility

Scavengers and their dependents, irrespective of their income, who are yet to be provided assistance for rehabilitation, under any scheme of the Government of India/state governments, are eligible for assistance.

Definition

A "scavenger" means one who is partially or wholly engaged in the obnoxious and inhuman occupation of manually removing night soil and filth. The dependent of a scavenger is one who is a member of his/her family or is dependent on him/her irrespective of the fact whether he/she is partially or wholly engaged in the said occupation. Each individual scavenger and his/her children who are of 18 years of age and above, who are not employed (other than as scavengers) will be identified and rehabilitated.

Salient Features

The SRMS is applicable to public sector banks. The identified scavengers would be provided training, loan and subsidy. Banks will provide loans to candidates sponsored by the state channelising agencies (SCAs) only. After sanctioning the loan, banks will claim the amount of capital subsidy from the SCAs, who in turn, will provide admissible capital subsidy, which will be disbursed to the beneficiary along with the loan amount. After disbursement of the loan to the beneficiary, the concerned bank branch will claim interest subsidy from the SCA on a quarterly basis.

Banks will charge interest on the credit provided to the beneficiaries at the rates prescribed under the Scheme. The National Safai Karmacharis Finance and Development Corporation (NSKFDC) or any other identified agency at the apex level, will provide interest subsidy to banks through their SCAs or any other identified agency at the state level, for the difference between the interest chargeable by banks and the interest to be charged to the beneficiaries under the Scheme.

Funding

The scheme provides for projects costing up to Rs. 5 lakh. The loan amount will be the remaining portion of the project cost, after deducting the admissible capital subsidy. No margin money/promoter's contribution is required to be provided under the Scheme.

Both, term loan (up to a maximum of Rs. 5 lakh) and micro financing (up to a maximum of Rs. 25,000) will be admissible under the Scheme. Micro financing will also be done through self help groups (SHGs) and reputed non-governmental organisations (NGOs).

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The rate of interest chargeable to the beneficiaries would be as follows-

Project Amount	Rate of Interest (per annum)
For projects up to Rs. 25,000	5 per cent per annum 4 per cent per annum (for women beneficiaries)
For projects above Rs. 25,000	6 per cent per annum

Where the rate of interest chargeable by banks on the loans is higher than the rates prescribed under the Scheme, interest subsidy to the extent of the difference would be given to banks.

Repayment

The repayment period for the loan would be three years for projects up to Rs. 25,000 and 5 years for projects above Rs. 25,000. The moratorium period to start repayment of the loan would be six months. The SCAs would distribute the funds within a period of three months to the beneficiaries.

Subsidy

Credit linked capital subsidy would be provided upfront to the beneficiaries in a scaled manner as below:

Project Cost	Capital Subsidy
For projects costing up to Rs. 25,000	50 per cent of the project cost
For projects costing more than Rs. 25,000	25 per cent of the project cost, with a minimum of Rs. 12,500 and maximum of Rs. 20,000

The beneficiaries would be allowed to avail second and subsequent loan from banks, if required, without capital subsidy and interest subsidy and other grants under the Scheme.

Banks' Role

The successful implementation of the Scheme depends on effective participation and monitoring by banks at all levels. Banks should, therefore, pay particular attention to this aspect and ensure that sufficient number of branches effectively participate in the implementation of the Scheme in close association with the state local scheduled caste development and finance corporations. Banks should allocate targets for financing beneficiaries by proportionately distributing the total target under the Scheme for the districts under the annual credit plan (ACP), among all bank branches covered for district credit plan (DCP) as per the availability of eligible beneficiaries within the area of operation of the branches. Bank may issue suitable instructions to their branches/controlling offices for implementation of the Scheme.

Further, banks should -

* Ensure that their branches extend all co-operation to the applicant beneficiaries and not ask for documents, guarantees etc. not envisaged in the Scheme.
* Not insist for amount in the fixed deposit from the beneficiary.
* Adopt simple and transparent procedure to eliminate middlemen operating between the beneficiaries and banks and expedite timely disposal of applications.
* Dispose off all loan applications up to a credit limit of Rs. 25,000 within a fortnight and those over Rs. 25,000 within 8 to 9 weeks.
* Maintain proper record of receipt and disposal of applications.
* Not reject applications on flimsy grounds. In case of rejection, reasons for rejection should invariably be recorded.
* The performance of banks under the scheme may be periodically reviewed at different fora under the Lead Bank Scheme, at state level bankers' committee (SLBC) meetings, etc.
* Make efforts to educate and reorient the attitude of the banks' staff.

Types of Projects

The beneficiaries are free to select any viable income generating self employment project.

CRR Increased

In the light of the current macroeconomic, monetary and anticipated liquidity conditions, and with a view to containing inflation expectations, the cash reserve ratio (CRR) on net demand and time liabilities (NDTL) to be maintained by scheduled commercial banks, regional rural banks (RRBs), scheduled state co-operative banks and scheduled primary (urban) co-operative banks has been increased by 50 basis points to 8.0 per cent in two stages. The increased CRR would be effective from the fortnights as indicated below:

Effective Date (i.e., the fortnight beginning from)	CRR on NDTL (per cent)
April 26, 2008	7.75
May 10, 2008	8.00

As a result of this increase in CRR on liabilities of the banking system, an amount of about Rs.18,500 crore of resources of banks would be absorbed.

DRI – Eligibilty Criteria Revised

The Reserve Bank has advised all Indian scheduled commercial banks that borrower's eligibility criteria for availing loan under the Differential Rate of Interest Scheme (DRI) scheme has now been increased. Accordingly, borrowers with annual family income of Rs.18,000 in rural areas and Rs.24,000 in urban areas would now be eligible to avail of this facility. Earlier, the annual income criteria for availing loan under the DRI scheme was Rs.6,400 in rural areas and Rs.7,200 in urban areas.

Banks have been further advised that the target for lending under the DRI scheme would continue to be 1 per cent of the previous year's total advances as hitherto. The other terms and conditions of the DRI scheme remain unchanged.

FOREX

Non-Status Holder Exporters - Direct Receipt of Import Bills

The limit for direct receipt of import bills/documents has been enhanced from USD 100,000 to USD 300,000 in the case of import of rough precious and semi-precious stones by non-status holder exporters. Accordingly, AD Category - I banks can now allow remittance for imports up to USD 300,000 where the importer of rough precious and semi-precious stones has received the import bills/documents directly from the overseas supplier and the documentary evidence for import is submitted by the importer at the time of remittance. AD Category - I banks can undertake such transactions subject to the conditions that-

(i) The import is subject to the prevailing foreign trade policy.

(ii) The transactions are based on their commercial judgment and they are satisfied about the bonafides of the transactions.

(iii) The 'know your customer' (KYC) and due diligence exercise are done and they are fully satisfied about the financial standing/status and track record of the importer customer. Before extending the facility, they should also obtain a report on each individual overseas supplier from the overseas banker or reputed credit agency overseas.

Aggregate Ceiling for Overseas Investment by MFs Enhanced

With a view to providing greater opportunity for investment overseas, the aggregate ceiling for overseas investment by mutual funds (MFs) registered with the Securities and Exchange Board of India (SEBI) has been enhanced from USD 5 billion to USD 7 billion with immediate effect. The existing facility of allowing a limited number of qualified Indian MFs to invest cumulatively up to USD 1 billion in overseas exchange traded funds, as may be permitted by SEBI, would continue.

UCBs

Asset Classification Norms

The Reserve Bank has advised Tier I urban co-operative banks (UCBs) that the 180 day loan delinquency norm for non-performing assets (NPAs) has been extended by one more year i.e. up to March 31, 2009. Further, the 12-month period for classification of a sub-standard asset in doubtful category by Tier I UCBs has been made effective from April 1, 2009 instead of April 1, 2008.

It may be recalled that in March 2008, the Reserve Bank had amended the definition of Tier I UCBs. According to the revised classification, the following types of UCBs fall into Tier I category.

i) Unit banks i.e. banks having a single branch/head office and banks with deposits below Rs.100 crore, whose branches are located in a single district.

ii) Banks with deposits below Rs.100 crore having branches in more than one district, provided the branches are in contiguous districts and deposits and advances of branches in one district separately constitute at least 95 per cent of the total deposits and advances respectively, of the bank.

iii) Banks with deposits below Rs.100 crore, whose branches were originally in a single district but subsequently, became multi-district due to reorganisation of the district.

Formulation of Cheque Collection Policy

The Reserve Bank has advised UCBs to formulate a comprehensive and transparent cheque collection policy taking into account their technological capabilities, systems/processes adopted for clearing arrangements and other internal arrangements for collection through correspondents. Further, they have also been advised to review their existing arrangements and capabilities and work out a scheme for reduction in the cheque collection period. Adequate care should also be taken to ensure that the interests of small depositors are fully protected. The policy framed in this regard should be integrated with the deposit policy formulated by them in line with the IBA's model policy. The policy should also clearly lay down the liability of the UCB by way of interest payments due to delays for non-compliance with the standards set by it. Compensation by way of interest payment, where necessary, should be made without any claim from the customer. It may also be ensured that the customers are, in no way, worse off than earlier.

UCBs should place the formulated cheque collection policy before their Board along with the Reserve Bank's current instructions and the Board's specific approval should be obtained on the reasonableness of the policy and its compliance with the spirit of the Reserve Bank's guidelines.

CUSTOMER SERVICE

Electronic Payment of Tax Mandated

The Central Board of Direct Taxes have made electronic payment of taxes mandatory for the following categories of tax payers from April 1, 2008 :

* A company.
* A person (other than a company), to whom the provisions of Section 44AB are applicable.

In this regard, the Reserve Bank has advised all agency banks that -

(i) the status of all corporate taxpayers can be identified from the name itself. Further, the 4th digit of the permanent account number (PAN) of all corporate assessees would necessarily be "C". Physical challans from such assessees should not be accepted across the counter;

(ii) in case of tax payers covered under Section 44AB, agency banks should not insist upon any proof of eligibility to pay tax through physical challans at the bank counters. The responsibility of making e-payment rests primarily with the taxpayer. Hence, the taxpayer's word should be taken as final;

(iii) the acknowledgement for e-payment should be made available immediately on screen;

(iv) the transaction id of e-payment should reflect in the bank's statement;

(v) they should prominently display on their e-payment gateway page, the official/s to be contacted in case the taxpayer faces any difficulty in making the payment, completing the e-transaction, generating the counterfoil, etc; and

(vi) the income tax department and the National Securities Depository Limited (NSDL) should be given a list of officials with their contact details, to be contacted by the income tax department or taxpayers in case of any problems faced by them.

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NBFCs

Reporting of Frauds in NBFCs

Incidences of fraud in non-banking finance companies (NBFCs) is a matter of concern. While the primary responsibility for preventing frauds lies with NBFCs themselves, a reporting system for frauds, which may be adopted by NBFCs, has been prescribed by the Reserve Bank as detailed below:

Classification

In order to have uniformity in reporting, frauds have been classified based mainly on the provisions of the Indian Penal Code. The classifications are -

(a) Misappropriation and criminal breach of trust.

(b) Fraudulent encashment through forged instruments, manipulation of books of account or through fictitious accounts and conversion of property.

(c) Unauthorised credit facilities extended for reward or for illegal gratification.

(d) Negligence and cash shortages.

(e) Cheating and forgery.

(f) Irregularities in foreign exchange transactions.

(g) Any other type of fraud not coming under the specific heads indicated above.

Cases of 'negligence and cash shortages' and 'irregularities in foreign exchange transactions' should be reported as fraud if the intention to cheat/defraud is suspected/ proved. The following cases, however, where fraudulent intention is not suspected/proved at the time of detection, should be treated as fraud and reported accordingly:

(i) Cases of cash shortages of more than Rs.10,000.

(ii) Cases of cash shortages of more than Rs. 5,000 if detected by management/auditor/inspecting officer and not reported by the persons handling the cash.

NBFCs having overseas branches/offices should also report all frauds perpetrated at such branches/offices to the Reserve Bank.

Reporting

Frauds committed by unscrupulous borrowers

A large number of frauds are committed by unscrupulous borrowers, including companies, partnership firms/proprietary concerns and/or their directors/partners by various methods, such as –

* Fraudulent discount of instruments.
* Fraudulent removal of pledged stocks/disposing of hypothecated stocks without the NBFC's knowledge/ inflating the value of stocks in the stock statement and drawing excess finance.
* Diversion of funds outside the borrowing units, lack of interest or criminal neglect on the part of the borrowers, their partners, etc., managerial failure leading to the unit becoming sick and laxity in effective supervision over the operations in borrowal accounts on the part of the NBFC functionaries rendering the advance difficult to recover.

Frauds involving Rs. 1 lakh and above

* NBFCs should submit fraud reports in all cases of fraud of Rs. 1 lakh and above perpetrated through misrepresentation, breach of trust, manipulation of books of account, fraudulent encashment of fixed deposit receipts (FDRs), unauthorised handling of securities charged to the NBFC, misfeasance, embezzlement, misappropriation of funds, conversion of property, cheating, shortages, irregularities, etc.
* Fraud reports should also be submitted in cases where the central investigating agencies have initiated criminal proceedings *suo moto* and/or where the Reserve Bank has directed that they be reported as frauds.
* NBFCs should also report frauds perpetrated in their subsidiaries and affiliates/joint ventures.
* Where the fraud amount involved is less than Rs 25 lakh, the fraud report should be sent within three weeks from the date of detection, to the regional office concerned of the Reserve Bank's Department of Non-Banking Supervision under whose jurisdiction the registered office of the NBFC falls.

Frauds involving Rs. 25 lakh and above

Where the amount involved in fraud is Rs 25 lakhs and above, the fraud report should be sent to the Reserve Bank's Department of Banking Supervision, Frauds Monitoring Cell. A copy of the fraud report should also be submitted to the regional office concerned of the Reserve Bank's Department of Non-Banking Supervision under whose jurisdiction the registered office of the NBFC falls.

Attempted Fraud

Cases of attempted fraud, where the likely loss would have been Rs. 25 lakh or more, had the fraud taken place, should be reported to the Reserve Bank's Central Office, Department of Banking Supervision, Frauds Monitoring Cell and a copy endorsed to the Reserve Bank's Central Office, Department of Non-Banking Supervision indicating the modus operandi and how the fraud was detected.

Reporting to the Board

* NBFCs should ensure that all frauds of Rs. 1 lakh and above are reported to their Boards promptly on their detection. Such reports should, among other things, take note of the failure on the part of the concerned officials and consider initiation of appropriate action against the officials responsible for the fraud.
* Information relating to frauds for the quarters ending March, June and September may be placed before the Board of Directors during the month following the quarter to which it pertains.
* All frauds involving an amount of Rs 25 lakh and above should be monitored and reviewed by the Audit Committee of the Board (ACB) or if the ACB is not there, other Committee of the NBFC. The periodicity of the meetings of the Committee should be decided according to the number of cases involved. The Committee should, however, meet and review as and when a fraud involving an amount of Rs 25 lakh and above comes to light.

Reporting to Police

The following cases should invariably be referred to the state police:

* Cases of fraud involving an amount of Rs. 1 lakh and above, committed by outsiders on their own and/or with the connivance of NBFC staff/officers.
* Cases of fraud committed by NBFC employees, which involve NBFC funds exceeding Rs. 10,000.

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