RBI Press Release

Report of the Task Force to Study the Cooperative Credit System and Suggest Measures for its Strengthening (August 2, 2000)

Government of India constituted a Task Force in April, 1999 under the Chairmanship of Shri Jagdish Capoor, Deputy Governor, Reserve Bank of India to study the cooperative credit system and suggest measures for its strengthening. The other members of the Task Force were Shri Shekhar Agarwal, Joint Secretary, Ministry of Finance, Shri Govindan Nair, Joint Secretary, Ministry of Agriculture and Shri Y.C. Nanda, Managing Director, NABARD.

The terms of reference of the Task Force included a review of the functioning of the cooperative credit structure for suggesting measures to make cooperatives member-driven professional business enterprises, rationalisation and improvement in costs, spreads and effectiveness at various tiers of cooperative credit structure and with a view to improving their financial health so that they can become efficient and cost effective instruments for delivery of rural credit and a review of the existing supervisory and regulatory mechanism for cooperative credit institutions and suggest measures for strengthening the arrangements.

The Task Force submitted its report to the Finance Minister on July 24, 2000 in Delhi.

The report has emphasised the need for reducing Government control over cooperatives, giving maximum autonomy to these institutions and recommended that they should be regulated under the Banking Regulation Act. The report has suggested development of staff and local leadership for cooperatives. Structural changes recommended include an exit route for unviable units and merger of Long Term and Short Term cooperative credit structures. In case a merger is not possible, both type of institutions be allowed to handle long term as well as short term credit. The report has concluded that strengthening of base level institutions would be the key for strengthening the entire structure and recommended rehabilitation of potentially viable units through a package of measures which encompasses financial, operational, organisational and systemic aspects. The Task Force has recommended that rehabilitation should be unit-specific and not across the board and should be taken up after studying its viability and possibility of turnaround in five to seven years. The financial burden of rehabilitation will be shared by members contributing 20 per cent of the costs by mobilising additional share capital. Balance amount will be provided by Central and State Governments by way of interest bearing bonds to be redeemed in a phased manner. Share capital contribution from the State/Central Governments has not been recommended.

The report exhorts State Governments to adopt Model Cooperative Societies Act or dovetail the essential features of the Model Act in their respective State Cooperative Societies Acts so as to ensure democratic functioning of cooperative with least interference from State Government and leaving banking functions clearly under the governance of Banking Regulation Act. It has called for effective supervision of lower tiers of the cooperative credit system by the higher tiers and introduction of audit of coopratives by chartered accountants.

It has recommended that societies should be run professionally on business principles and that interest rate spread available to them should be adequate to meet costs, leaving some surplus. Cooperative banks should have freedom to take investment decisions without the prior clearance from Registrar of Cooperative Societies.

Task Force has further recommended that Government should provide support to the cooperative banks in their recovery effort and should desist from providing across the board interest subsidy or making loan waiver announcements. A committee approach to write off what is clearly not recoverable and compromise settlements is suggested. It has suggested that the provisions of the existing Debt Recovery Tribunals may be made applicable to cooperative banks also where loan size is more than Rs. one lakh so as to expedite recovery of chronic overdues.

It has suggested setting up a Cooperative Rehabilitation and Development Fund at NABARD by contribution from Government of India and another Mutual Assistance Fund at State level by contribution from cooperative institutions in the state concerned.

The report is also available on our website **www.rbi.org.in**

RBI to Use Web for Release of NBFC Notifications
(August 11, 2000)

The Reserve Bank of India has decided to discontinue the conventional practice of physical despatch of company circulars and notifications containing instructions and amendments to provisions of directions relating to Non-Banking Finance Companies to individual NBFCs. Intstead, it would use its website **(URL: www.rbi.org.in)** to communicate the instructions and notifications to the end-users. The NBFCs could now access directions relating to them at **www.nbfc.rbi.org.in.**

The Reserve Bank has advised that it would follow the following procedure in future for announcing instructions and amendments to the provisions of NBFC directions to NBFCs:

1. It would place the text of the notifications and company circulars relating to NBFCs on its website on the same day that these are issued.

2. It would issue a press relase as and when any instructions are issued or amendments are made in the directions. The notifications would be separately published in the Government gazette.

3. In case the company desires to have a hard copy or soft copy of the company circular/ notification, it may approach with a written request to the Regional Office of Department of Non-Banking Supervision under whose jurisdiction the registered office of the company is located.

The Reserve Bank has been sending a copy of company circulars/notifications to each and every NBFC that has applied for Certificate of Registration under the Reserve Bank of India Act/ Regulations. Printing and despatching of the notifications and circulars to individual NBFC by post is time consuming. With the increasing use of internet by the Reserve Bank and the NBFCs, the instructions can be immediately and conveniently reached to the users.

Exchange Earners' Foreign Currency Accounts Scheme (August 14, 2000)

Exchange Earners' Foreign Currency (EEFC) Accounts Scheme was introduced in 1992, which enabled exporters of goods and services to retain a portion of their receipts in foreign exchange with an authorised dealer in India. According to information available, the balances in these accounts aggregate around USD 2 billion and most of these balances are being kept idle in interest bearing accounts. With the operationalisation of the Foreign Exchange Management Act on June 1, 2000 and the Rupee becoming fully convertible on the current account, the EEFC Scheme is under review. Pending such a revie w, it has been decided to:

1) Scale down the balances in these accounts to 50 per cent of the amount held on August 11, 2000. The excess over 50 per cent should be converted into rupees latest by August 23, 2000. The authorised dealers should report compliance by the due date.

2) Permit future accretions only upto 50 per cent of what is currently eligible; henceforth such accretions should be maintained in liquid form as current/ savings accounts.

3) Credit facilities presently available against such accounts will be held in abeyance until further notice.

Detailed instructions are being issued to authorised dealers.