

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:3945
ANSWERED ON:03.12.2010
GUPTA COMMISSION ON SFC
Rane Dr. Nilesh Narayan

Will the Minister of FINANCE be pleased to state:

- (a) whether a review of the State Finance Corporation (SFC) operation for 2009-10 and the need for restructuring thereof was undertaken by the Gupta Committee;
- (b) if so, the details of the recommendations made by the Corporation for rejuvenating the SFCs and improving their performance;
- (c) the decision taken thereon including the steps recommended for improving the performance of SFCs;
- (d) whether the Government of Maharashtra has made request for restricting the Maharashtra State Finance Corporation; and
- (e) if so, the details thereof and the Government's response thereto?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI NAMO NARAIN MEENA)

(a) No, Sir. However, the Gol, in September 2000, had set up a Committee headed by Shri GP. Gupta, the then Chairman & Managing Director, Industrial Development Bank of India (IDBI) for looking into the functioning of SFCs and making recommendations for their restructuring and revitalization.

(b) The recommendations made by Gupta Committee in its report were broadly for infusion of funds to revitalize and strengthen SFCs and to improve the performance of SFCs.

(c) Gol suggested to the State Governments that they might consider recapitalizing the SFCs on the lines of Gupta Committee recommendations after establishing its long term viability and relevance. To help revival of SFCs, the Gol in August 2003 announced a package and in line with the package, 11 SFCs and their respective State Governments entered into tripartite MoU with SIDBI.

The MoU envisaged specific obligations on the part of State Governments concerned, like continued support to the SFCs by way of contribution to the share capital for facilitating higher levels of borrowing and achieving required capital adequacy; conversion of outstanding loan in lieu of capital (LILC) into capital; extending guarantee for market borrowing etc.

The MoU also stipulated a number of operational milestones to be achieved by the SFCs, like achieving targeted recovery of not less than 90% in respect of standard assets; bringing down the level of non performing assets (NPAs) to less than 10% during the course of first 5 year phase of MoU; ensuring containment of NPA out of fresh sanctions at less than 5%; taking effective steps to curtail the administrative and establishment expenditure in a phased manner; rationalising staff strength; putting in place second line of management; etc. Ten of the eleven SFCs (except UPFC) could implement the MoU.

SIDBI had agreed to provide the following benefits to SFCs under MoU mechanism:-

Reduction in interest rate on outstanding refinance/ LOC by 2%;

Rebate of 2% on fresh lending after April 1, 2003 (which was subsequently restricted for the disbursements made during FY 2004 as the rate of interest was brought down to 7.50% p.a., which provided for the rebate upfront, w.e.f April 01, 2004);

Re-schedule of refinance outstanding with an elongated repayment period of 10 years including an initial moratorium of one year; and

Organize need-based training programmes, as a measure of capacity building of SFCs.

(d) & (e): The Government of Maharashtra has not made any request for restructuring the Maharashtra State Finance Corporation so far.