

1549 hours

Title: Discussion on the State Financial Corporations (Amendment) Bill, 2000 (Not concluded).

THE MINISTER OF FINANCE (SHRI YASHWANT SINHA): I beg to move:

"That the Bill further to amend the State Financial Corporations Act, 1951, be taken into consideration."

Mr. Chairman Sir, the existing State Financial Corporation Act was enacted almost five decades ago. At present 18 State Financial Corporations, SFCs, are functioning in various States. These SFCs have played an important role in the evolution and growth of the small and medium enterprise. However, with changing business environment they have started facing a number of problems relating to organisational structure, management, resource mobilisation, operational efficiency, overall financial health etc.

To enable SFCs to adapt themselves to the emerging environment and enhance their ability to respond to the needs of the changing financial system, it has become imperative to enlarge their shareholder base and provide them with greater functional autonomy and operational flexibility.

This has necessitated comprehensive amendments to the State Financial Corporation Act. The main features of the proposed amendments are:

1. Transfer of IDBI shareholding in SFCs in favour of SIDBI.
2. Enlarging the definition of 'industrial concern' to enable SFCs to finance new emerging business activities.
3. Capital restructuring of the State Financial Corporations with a view to increase the authorised share capital, enlarge shareholder base, permit issue of share capital upto 49 per cent to the public and to allow the Financial Corporations to reduce or convert the existing share capital.
4. Providing full flexibility to SFCs with regard to borrowings, acceptance of deposits and investment of surplus funds.
5. Enhancing the limits of accommodation granted by SFCs.
6. Restructuring of the Board of Directors of SFCs and vesting greater powers in the General Body of Shareholders for appointment of Auditors, approval of rate of dividend and approval of annual accounts.

Sir, strengthening of the SFCs would go a long way in promotion and development of small and medium scale industry in the country. I submit that this Bill be taken up for consideration and passing.

I beg to move:

"That the Bill further to amend the State Financial Corporations Act, 1951, be taken into consideration."

MR. CHAIRMAN : Motion moved:

"That the Bill further to amend the State Financial Corporations Act, 1951, be taken into consideration."

The House shall now take up amendments. Shri A.C. Jose, are you moving your amendment?

SHRI A.C. JOS (TRICHUR): Sir, I am in agreement with the Bill.

MR. CHAIRMAN: You may say 'yes' or 'no' about moving your amendment.

SHRI A.C. JOS : No amendment.

MR. CHAIRMAN: Shri Varkala Radhakrishnan, are you moving your amendment?

...(Interruptions)

MR. CHAIRMAN: So, he is also not pressing. Hon. Member, Shri A.C. Jose.

...(Interruptions)

MR. CHAIRMAN: That stage has passed. Once passed is passed.

...(Interruptions)

MR. CHAIRMAN: No, that subject has been moved. No backward movement now.

SHRI A.C. JOS : I am in general agreement with the principle and clauses of this Bill. As the hon. Finance Minister stated just now, this has been much in demand for the past so many years. I agree that the State Financial Corporations have done a very good job in financing small and medium industries. They have financed in every State. They have financed small and medium industries throughout the country. There were a lot of misgivings but at the time of enunciating and starting of the State Financial Corporations, there was an apprehension as to how they would function and how far they will move and all that. But allaying all the misgivings, the Financial Corporations have come forward to help the small and medium industries. It is right that as time goes, as the financial and industrial scenario changes, the Financial Corporations also need many changes. There are a lot of impediments in the present Corporations which prevent them from financing in many circles. Those impediments were cleared by Section 2, by enlarging the definition of industrial concern. That is a very comprehensive definition which has been given by which Financial Corporations can enter into any kind of activities and render any kind of help to the industries.

I have no objection. The point is that the Industrial Development Bank of India has been replaced by the Small Industries Bank. I do not know why the Government has chosen to say like that. Instead of calling it SIDBI, the Government has just stated as Small Industries Bank alone everywhere. It is the SIDBI which is working well. Why should the definition be abridged to that of Small Industries Bank instead of Small Industries Development Bank of India? Or, is there any intention for the Government to change it to that of Small Industries Bank? Everywhere, the Government has used it as the Small Industries Bank. Of course, there is nothing wrong in it. The only thing I am saying is that the Small Industries Bank is the definition which the Finance Minister intends to use instead of the Small Industries Development Bank of India. What is the reason for changing it? SIDBI is the usual title. But here it is said as Small Industries Bank. When you go through all the clauses of the Bill, you will find it. I do not want to go into all the clauses. But the point is that the element of State Government comes into almost every clause. Section 4 of the principal Act is being amended by sub-section 3 where it has been stated: "Subject to the approval of the State Government"; So, everywhere it is the State Government that comes into the picture.

This Act enables the Financial Corporations to borrow money, to buy bonds or to buy the money from the LIC or from other Financial Institutions. Why should the State Government or the Government of India involve in it? If the State Government or for that matter any Government gets involved in the affairs of the Financial Corporations, it will try to interfere in the activities of the Corporation. I am not blaming the bureaucracy *in toto* but the bureaucracy in the Government will try to interfere in the activities of the Corporation. I can cite a number of examples. Even now, in the State Government Corporations, the Government interferes and distributes favours.

Now, I come to clause 10 of the Bill about Board of Directors. It goes along with my contention of interference of the State Government. Clause 10 of the Bill says:

"The Board of Directors shall consist of the following, namely:-

- a. a director to be nominated as chairman under sub-section (1) of section 15;
- b. two directors nominated by the State Government of whom one director shall be a person who has special knowledge of or experience in small-scale industries"

It is a good clause. Till today, the Financial Corporations do not have a specific clause like this. But the mischief has been done in Clause 11(1), in page 9 wherein it has been stated:

"A nominated director shall hold office during the pleasure of the authority nominating him."

It appears to me that the authority will be the State Government. By implication, this clause would mean the distribution of the political spoils or political patronage to somebody. If a Government comes, "A" will be nominated. If that Government goes, he will also be going. That is why, I am submitting to the hon. Finance Minister that this will be a playground for playing politics.

1600 hrs.

Instead of that, an experienced small-scale industries man is nominated, he should serve the whole term. According to me, there are a number of small-scale industries associations functioning in this country, namely, World Assembly of Small Scale Industries, All India Small Scale Industries. Why do not we leave that nomination to these professional bodies or by some other method? Instead of that, you are now leaving it to the State Government and

the authority. Coupled with that the fact is that the nominated directors will hold office during the pleasure of the authority nominating it. That will definitely become a political patronage instead of encouraging the small-scale industry. I am not going into all that.

MR. CHAIRMAN : You can continue next week.

THE MINISTER OF PARLIAMENTARY AFFAIRS AND MINISTER OF INFORMATION TECHNOLOGY (SHRI PRAMOD MAHAJAN): It may come up even tomorrow.

MR. CHAIRMAN: Yes, we can continue next time.

14.16 hrs.

MATTERS UNDER RULE 377