

[*Sh. Basudeb Acharia*]

I urge upon the Government to look into the matter so that the area is freed as much as possible from the dangers of unsafe living.

15.24 hrs.

STATE FINANCIAL CORPORATIONS  
(AMENDMENT) BILL

[*English*]

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI JANARDHANA POOJARY): Sir, on behalf of Shri Vishwanath Pratap Singh, I beg to move:

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

As this august House is aware the State Financial Corporations—SFCs—which were conceived as Regional Development Banks constitute an important and integral part of the structure of development financing institutions in India. These Corporations contribute significantly to the growth of small and medium industries in the country. The efforts of SFCs towards nurturing the development of small and medium scale industrial units is part of the broad strategy towards dispersal of economic prosperity, greater employment generation and balanced regional development. The network of SFCs in the country covers all the States and Union territories.

In the light of the experience gained since the SFCs become operative, it has become necessary to effect certain amendments to the statute so as to remove certain restrictions which were necessary in the beginning while the SFCs were in their infant stages and which have little relevance now. The amendments which we are now proposing aim at removing the restrictive provisions so as to provide operational flexibility to the SFCs for functioning as developmental agencies. The amendments also seek to enable the SFCs to raise the maximum amount of resources consistent with normal financial prudence in order to help the SFCs to cope with the increasing demands on the resources at their disposal,

The underlying objectives and reasons for bringing this legislation before this August House have been set out in the Statement of Objects and Reasons appended to the Bill. It is, at once, evident from the Statement of Objects and Reasons that the Bill before you is a progressive piece of legislation aimed at accelerating the developmental activities of the State Financial Corporations. It will be accepted by one and all in this House that there is indeed a case for strengthening the capital base of these State Level Institutions and enabling them to augment their resources. Quite a few of the amendments proposed in the Bill arise from this objective.

The definition of an ‘industrial concern’ which may be assisted by an SFC is being expanded in the light of experience. Transport of goods and passengers by rope-way or lift would be included in the definition so that these modes of transport which cater mainly to the hilly areas can receive assistance from the SFCs. The definition would also include development, of mining, provision of weigh bridge facilities, development of industrial areas as also research and development activities relating to the specified industrial concerns.

The most welcome proposal from the point of view of the small and medium scale industrial units would doubtless be the enhancement of the borrowing limits. The existing financing limits have lost their relevance in the face of all-round cost escalations. At present, an SFC can extend assistance only to the extent of Rs. 15 lakhs to a partnership firm and 30 lakhs to companies and cooperative societies. These limits are being doubled to 30 lakhs and 60 lakhs respectively with an enabling provision that the Industrial Development Bank of India could increase these limits upto four times, in either case. The SFCs under the present statute cannot assist an industrial concern with aggregate of paid-up share capital and reserves in excess of Rupees one crore. This limit rather restricts the scope of financing of industrial concerns by the SFCs. We are, therefore, proposing to enhance the limit to Rupees three crores or such higher limit upto Rupees thirty crores as the Central Government may, by notification, specify,

**SHRI S. JAIPAL REDDY:** (Máhbub-nagar): Sir, I rise on a point of order. The hon Minister must make a speech. He cannot read a statement here.

**MR. CHAIRMAN:** The Minister is allowed to read the speech.

**SHRI JANARDHANA POOJARY:** I will reply also to the points made.

**MR. CHAIRMAN:** There is no point of order.

**SHRI S. JAIPAL REDDY:** Sir, he is supposed to give a reply and he cannot read a statement. What is the legal position, Sir?

**MR. CHAIRMAN:** It is allowed. The Minister is allowed to read the speech. There is no point of order.

**SHRI JANARDHANA POOJARY:** These amendments together with the amendments enabling the SFCs to acquire any instrument relating to loans and advances by any notified financial institution would enable the SFCs to join in the Participation Certificate Scheme now operated by the All-India financial institutions. This scheme being a single window sanction and disbursement mechanism, would help in reducing delays in sanctions and disbursements and eliminate avoidable documentation work.

I am glad to convey to you that we are proposing amendments which would make a beginning towards shifting the approach of the SFCs from being security-oriented to one of being project-oriented.

It is, in my opinion, a bold and innovative step that would allow the SFCs to grant loans which may not be fully secured if the exigencies of timely assistance warrant the grant of such assistance. By this, the SFCs would be able to provide bridge loans which may help in preventing project slippages.

We are availing of opportunity to provide more teeth to the SFCs to recover their dues from the errant borrowing concerns who may default in payment of their dues to the SFCs. Any developmental financial institution would have to recycle its funds through

timely recovery of its dues. With this objective in view, are proposing a procedure for recovery of dues of the SFCs as arrears of land revenue. On the whole, the proposed amendments are necessary to make the SFCs effective instrument of regional development. I earnestly hope that these proposals, wholesome as they are, would receive the support of all sections of this House.

With these remarks, Sir, I commend the Bill for Consideration by the House.

**MR. CHAIRMAN:** Motion moved:

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

Now, Shri Madhav Reddi may speak.

**SHRI C. MADHAV REDDI** (Adilabad): Mr. Chairman, Sir, I rise to support this Bill which has been brought forward to amend the State Financial Corporations Act, 1951. I agree that the Government realised that there is need for changing this Act to make this project-oriented finance instead of security-oriented approach which has been there all these 30 years. It was in 1951 that this Act was enacted. Since then the financial corporations in the States have been doing very good work, but there certain loopholes, certain lacunae, which had to be rectified and the Government waited for 30 years to amend this Act though there had been a demand from all the States that the Act should be modified.

Coming to the question of security, I feel that even without this amendment, the security approach should have been given up a long time ago. When we talk of security, We should also realise that all these corporation loans are covered by various other schemes such as the credit guarantee scheme, for all the loans given to the small scale industries are automatically covered by credit guarantees. Then the entire loan comes from the refinancing agencies like the IDBI. So, there should be no hesitation for the financial corporations to finance the small scale industries or medium scale industries and now, we feel that many of these corporations are so much security oriented that they take months and months to pro-

[*Sh. C. Madhav Reddi*]

cess the applications and then, when the applications are processed and when sanctions are given, almost all the sanctions are subject to refinance. Then the applications are sent to IDBI for sanction of refinance. The processing takes 3-4 months here and then the papers go to the IDBI, from there they go to the Regional Office and then to the the Head Office. There it will take six months to one year. By the time refinancing is agreed upon by the IDBI it is more than a year and the party loses its interest in the project. When I mean to say is that when you have created these statutory corporations, they have all the expertise at their command and they process the applications. So, where is the need again for the IDBI to take that much time for agreeing for refinance.

In this connection, I would also like to mention that many of these financial institutions are becoming more and more a part of the Government. A lot of governmental functions are being taken over by these institutions. This is not the intention of the Government because when the IDBI or the financial corporations were incorporated, we never thought that they would acquire such a great status as they would try to dictate the policies to the Central Government.

The regulatory function is that of the Ministry of Industrial Development. You go on giving the policy guidelines to the States and to the various agencies. Within these policy guidelines, these financial institutions are supposed to work. But what is happening today? If the financial institutions and the IDBI want to discourage a particular line of production, they simply refuse to advance the loan stating that enough capacity has already been created in the particular industry. How do they know that? Of course, they are the financing agencies and they have some financial expertise. They may have picked up some technical knowledge here and there when they deal with the subject. But do they have that much expertise which the Government or the Industries Department or the Director General, Technical Development is having? Why should they take the function

of the Government and regulate the industrial growth. They have been interfering and regulating these policies and the Government has been keeping quiet with the result that they have gone too far. So much so that several projects for which licences have been given by the Government or the registrations were given by the D.G.T.D., have been refused by the financial institutions when the proposals went to them for loans, on the ground that there is excess capacity. I have no objection if it is rejected on the ground that it is not a viable project or the promoter is not proper or the local is not good. There was none of these grounds. The only ground given by them for rejection is, there is already excess capacity. How do they say that excess capacity has been created? If at all there is any excess capacity, it is the duty of these institutions to bring this matter to the notice of the Government and suggest some steps. If a particular line of production is more congested, then the Government can have your reservation and refuse to give licence. Here, licensing and regulation is exclusively the function of the Ministry of Industry. Today I can give you hundreds of examples in which these regulations have been dictated by the financial institutions simply because they are in a position to dispense with the power to finance. This is a matter which is to be looked into and the Government is to see that these financial institutions function within the limits prescribed for them.

I am very happy that the limit of borrowing has been increased for the financial corporations when they borrow money from the Reserve Bank of India. Earlier, they would borrow money only up to 90% of their paid-up capital. Now, it has been increased to 200%. Similarly, they have been given an opportunity to raise funds by resorting to deposit mobilisation or issuing bonds or debentures. Under the present Act, the Governmental guarantee is necessary and many State Governments were afraid of giving guarantee to the debentures raised by the financial institutions, with the result they did not even try to raise their funds by issuing debentures. It is very good that their statute has been increased. They are more popular with the people. They can get the funds as they are

managing the affairs very well. They are in a position to go to the public to raise finances by means of issuing debentures etc. This is a very welcome amendment and I fully support this amendment. Through this amendment, their resources would be augmented.

The authorised capital of the Corporation has been increased from Rs. 10 crores to Rs. 50 crores. This is also a very welcome measure because Rs. 50 crores limit may go up to 100 crores also. Rs. 100 crores also with the permission of the Government. The limit of paid-up capital has also been increased. But one thing which I am not able to understand is about the recovery. Now, we are giving powers to them to collect the recovery under the Land Revenue Recovery Act. I doubt whether this is necessary at all. What is the present experience? Is it not possible for them to recover the loans as the loans are secured loans? They do not give any unsecured loans. Then, why should they have the power of the Government to go and collect the arrears as land revenue recovery? There is one more amendment dealing with the recovery of loan arrears. The amendment says that the loan instalments of financial Corporations can in future be collected as arrears of land Revenue under Revenue Recovery Act.

Well, I do not mind if the State Governments agree to it but, I am afraid, many State Governments might not agree because it will put a strain on their own administrative resources and they have to collect their own arrears and together with this they have to collect the arrears of the State Financial Corporations and tomorrow the banks also might come forward and say "Why should you not give the same power as you have given to financial corporation? After all, we are also financing the small-scale industries." You may consider that also. Ultimately, the pressure on the State Government machinery is going to be increased day by day. I know that once this is done, it will be easier for you to recover loans because some of the States have done it already I do not know how they did this but in some States, some Corporations are collecting the arrears as arrears of land revenue.

Lastly, I wish to have a more dynamic amendment to be introduced which is going to make them really instruments of industrial development in the country. That has not been thought of so far but I would like that for the loans which are being sanctioned by all these financial institutions, there should be an automatic credit guarantee given not by the Government but by a third agency. This is being done in Japan. We might have copied it from Japan. But while copying it, we have taken the form of it but the spirit is lost. There, the guarantees provided by the promoting agencies, private agencies. These agencies pool the resources and give the guarantees and charge guarantee commission and the financial institutions do not take any responsibility at all. The entire processing is done by these private agencies and once the private agency gives that guarantee, then there is no question of refusing finance, because once these private agencies take the full responsibility, finance is given automatically; because if the industry fails, the private institution will suffer not the Corporation. If that type of facility is there in India, it will go a long way in promoting industries on a very unlimited scale. Today we know that one of our financial corporations, the Andhra Pradesh Financial Corporation, is number one in the country. But I know this has functioned like a bank. It is very easy. Banks always make profits. No bank is suffering on that account. This security oriented approach is so much embedded in their system that unless you break the system, I am afraid, in spite of giving the credit guarantee facilities or the re-financing facilities, these institutions are likely to continue to function in the same old fashion as if they are meant only to give loans and to recover.

[Translation]

DR. G.S. RAJHANS (Jhanjharpur): Mr. chairman Sir, the State Financial Corporations Act was enacted in 1951 with the sole objective of providing aid to the small-scale industries and the medium scale industries, the reason being that the commercial banks did not want to block their money in these industries for a long time. As a result, the small industrialists and those technician and engineers who

[*Sh. G.S. Rajhans*]

tried to set up their own units did not get funds to do so. They asked for help from friends and relations whatever best they could do they did. At last, disappointed, they approached the banks. But they did not get funds from them too. Then Government realised the need for State financial Corporations to help these people. Government deserve congratulations for the amendment it has brought but I would like to raise two or three points in this regard.

Though the Reserve Bank may be exercising control over the State Financial Corporations, yet very few people know the inside story. I would like to draw your attention to Bihar. The people have to face numerous difficulties in getting loans sanctioned from the State Financial corporations. There is no end to it what is true of Bihar may be true of other places also. I would like to say two things, One is that neither the politicians nor the IAS officers should be made Chairmen or Managing Directors of these corporations because they have an indifferent attitude towards them. The politicians want TA and other perks along with an arena for politicking irrespective of the party to which he belongs. The I.A.S. officer is least bothered whether the industries get finance or not because he is not to stay in the Department for long.

It is my practical experience and I would request Government to appoint professional managers at these places and if their performance is not found satisfactory, they may be turned out at 24 hours' notice. These professional on managers, whether they are drawn from the public sector or the private sector, should be result-oriented. They should be categorically told to show good performance and good results, otherwise their services would be terminated at 24 hours' notice, as it happens in the private companies. The I.A.S. officer thinks that nobody can harm him, come what may. The politician feels that as long as he enjoys the confidence of the Chief Minister, no one can remove him. Sir, therefore I would request that the system itself should be changed. In this connection I would like to point out a few things.

A survey should be conducted of all the 18 corporations and either the Reserve Bank should be asked to report on them or a Parliamentary Committee should be constituted which may look into the working of these corporations. What is the reason why many of the units which were financed by the financial corporations became Sick and what steps have been taken to improve the situation ?

I would congratulate Government for allowing the Financial Corporations to raise funds whether through deposits or through debentures. Prior to this, it was not possible till the Financial Corporations were authorised by the State Government. Now the Financial corporation would themselves look after it. The limit of raising funds has also been increased considerably. I would read out from the text of the Bill the major change that is proposed by Government which is a welcome step:

[*English*]

"It is proposed to change the present security-oriented approach of the Financial Corporation to project-oriented approach. This will enable the Financial Corporations to grant loans, like bridge loans, which are not fully secured."

[*Translation*]

An hon. member had rightly said that this should have been much earlier. The other financial institutions especially the commercial banks require collateral security against loans sanctioned. How can an engineer, who is a degree holder from here or abroad and wishes to set up a factory, give collateral security. Government have of course realised it, but quite late. Now they are ready to give loan. You may be aware that the 1951 Act was amended in 1972. It was discussed threadbare at that time. Whenever the financial corporations were discussed the major flow pointed out was that they did not undertake research and study or did not collect commercial intelligence. Government have provided in the present Bill that these institutions would undertake research and economic studies ..... (*Interruptions*)

SHRI C. MADHAV REDDI : They do not conduct research themselves but advance loans to those engaged in research work.

DR. G.S. RAJHANS : I would like to read it out for you.

[English]

It is proposed to expand the list of business which the Financial Corporations could undertake. This will, *inter alia*, enable them to undertake research and service relating to marketing and investment, carry out techno-economic studies, provide technical and administrative assistance to industrial concerns, plan and assist in the promotion and development of industries, discount Bills of exchange/promissory notes, etc. The said expansion will enable them to undertake promotional and development work and play the role of regional development banks.

[Translation]

All right, it will help in research work. It has been said earlier also and I want to draw the attention of government that they should have commercial intelligence of their own. They should find out through research which are the projects to whom loan can be given. One point is repeatedly made about financial corporation about which we are not satisfied because the facts are quite different. It is said that the financial corporation will finance the industry in backward districts or in the districts where there is no or negligible industry. What happens is that there is very little finance available in such places. It is my personal experience that in such places the industries are not financed. What is required to be done is that the financial institution should, through its agency, identify the areas where there is industrial backwardness and also find out which industries can be set up there. I come from the Mithila area of North Bihar. Mango is available there at throw-away prices. If a mango-based industry is set up there and the Financial Corporation is prepared to finance it, thousands of people can find employment there. Besides, the mangoes, which otherwise rot there, will be put to use. There are thousands of such places in

the country, the identification of which should be done by this corporation to decide which industry can be set up where government have stated a good thing in regard to this which I would like to read out.

[English]

At present the provisions of the State Financial Corporations Act, 1951 can be made applicable only to an institution in existence at the commencement of the said Act and which had for its objects the financing of industrial concerns. It is proposed to delete the condition that the institution should have been in existence at the commencement of the said Act. This will enable to apply the provisions of the Act to institutions which have come into existence after the commencement of the Act. This will establish an organic link between these institutions and the Industrial Development Bank of India.

[Translation]

Earlier, the loan used to be given only to the existing industries or the internal units. Now, it has been said that assistance will also be given to all the industries which may come up in future as well. Earlier, the industrial activities well limited and defined, but now it has been said that we shall make these activities broad-based. The most important thing is that attention should be focused by government on such industries as would generate employment. At the same time, those who went to set up an industry or trade of their own should be encouraged.

[English]

PROF N.G. RANGA (Guntur) : It is for the State Government.

DR G.S. RAJHANS : But the direction has got to be given by the Centre and the Centre should impress upon the State Government that financial assistance will be given only when the said criteria are followed.

[Translation]

Although, I wanted to speak at length on this subject, yet due to paucity of time,

[*Sh. G S. Rajhans*]

I shall restrict myself to one or two points. Work is not being done to fulfil the objective with which this Financial Corporation Act was enacted. For example, equity capital is needed in a small scale industry. It needs working capital to expand its business and to replace its machinery, but finance for that can be provided only by the Financial Corporation. No other agency can provide finance.

In the end, all that I want to say is that the Financial Corporation should be made risk-oriented so that it may be prepared to take risk without any inhibition or fear. If in any case the loan is not repaid, at least an entrepreneur, a young man, an engineer or a doctor has sincerely made genuine efforts to set up an industry. Government should not be worried if some money advanced as loan turns out to be had debt in this endeavour. Therefore, instead of adopting an over-cautions approach, it should be made risk-oriented.

With these words, I support this Bill, but I urge Government that the objective with which this Bill has been brought forward and the objective with which this Act was enacted in 1951 must be fulfilled.

[*English*]

SHRI SATYAGOPAL MISRA (Tamluk): The State Financial Corporations Bill was originally enacted in the year 1951 and after the experience of more than 30 years it has now become necessary to amend this Act. My point is that instead of bringing 30 amendments in a particular Bill, the Minister should have come with a well-thought out comprehensive Bill. What is the necessity of bringing as many as 30 amendments in a particular Bill instead of bringing a comprehensive legislation? I cannot understand it. In this respect the Minister must tell the House what is the experience which we have gained through these long 30 years. So many small scale industries are there, so many medium-scale industries are there. Everybody is of the opinion that promotion of small-scale industries and medium scale industries is necessary. But what we have gained through these long 30 years—that should also be analysed. How many industries in the small scale sector and how many in the medium scale sector have been benefited,

through this legislation—the State Financial Corporation Act during these last 30 years—the Minister should tell us these things.

16.00 hrs.

In the present situation it has definitely been necessary to amend the Act because the concept has changed and a larger amount has become necessary for a small scale and a medium scale industry has changed. A bigger amount is necessary now and in this respect the Minister has brought this legislation. I welcome it. I welcome the provisions laid down in the Bill but one thing I want to tell the House that our Reserve Bank or financial institutions or different nationalised banks are in the habit of sanctioning loans to the big houses. Therefore, if the representatives of the Reserve Bank or State Bank or any other financial institutions dominate within these financial corporations I do not know whether they will be able to change their habit. As they are in habit of sanctioning loans to the big houses how they will help the poor? The whole thing should be taken into consideration in the broad perspective of the new Industrial Policy new textile policy and the Import Policy of the present government.

16 01 hrs.

[SHRI ZAINUL BASHER *in the Chair*]

Earlier I have also mentioned that everybody wants that the small scale and the medium scale industries should survive. But how will they survive. That is the main question. This type of legislation is necessary no doubt it. But only through this legislation survival of the small scale and the medium scale industry is not possible.

Sir, it should be looked at from the broader aspect of the new Industrial policy of the present government. What is their industrial policy? Government has taken the decision to introduce computers in different sectors. How the small scale and the medium scale industries will compete with this system? Is it possible for them? The present day need is that the Government should invest more money in the public sector. But according to the need of the present situation, Government is unable to invest that amount of money in the public sector. Therefore, they are encouraging private sector. With the advancement of

private sector, how the small scale or the medium scale industries will survive?

Sir, the main factor is that present Government's industrial policy and textile policy stand in the way of the advancement of our small scale and medium scale industries. In that perspective you can bring a good legislation. But our actual purpose will not be fulfilled in this way. Therefore, I would like to urge upon the Government to re-consider the whole industrial policy. Do not encourage multi-nationals which you are doing by raising the limit of MRTP from Rs. 20 crores to Rs. 100 crores. Bringing different type of Bills, you are encouraging them.

In that process how do you expect that the small-scale industries will survive? My point is that in this context the whole perspective with regard to the promotion of the small-scale industries and medium-scale industries should be looked into.

Sir, coming to the present legislation, I may point out so many amendments have been given. I have also said earlier that I welcome all these measures. But I would again like to emphasise my point that a comprehensive legislation is necessary for the safeguard of small-scale and medium-scale industries. With these words, I conclude.

[*Translation*]

SHRI MOOL CHAND DAGA (Pali): Mr. Chairman, Sir, this Bill has been welcomed by all sections of the House. The question is whether the 18 Financial Corporations working in the country have fulfilled their objectives or not? The people who do not need any loan manage to get loan and avail of its benefits.

Today, a person pulls a rickshaw whereas same people work as labourers. Your Financial Corporations gives loan to those who have the means to buy a rickshaw whereas that rickshaw is pulled by other labourers. Who earns from this venture? It is somebody else.

Today, the Financial Corporations have also become dens of corruption. There are 18 Financial Corporations in the country. Will the hon. Minister sincerely and honestly

tell the number of Financial Corporation whose capital has been wiped out? Also, please tell us the mode of getting loan from the Financial Corporation?

You have brought forward a very good Bill, the Members have commended it, I also appreciate it, but, what are the points which I appreciate? We talk of a socialistic society and we want a socialistic pattern of society. Our intention behind the setting up a Financial Corporation was not that a few persons should dominate it. What are the qualifications of the Chairman and Directors of the Financial corporation? Do you want to keep the Financial Corporation afloat at the mercy of somebody? Crores of rupees of the Financial Corporation are still outstanding. Will the hon. Minister be pleased to state the amount of bad debts which is irrecoverable? How many of these 18 corporations are such as are unable to recover their money because of the fact that the money was loaned to those who were running take companies?

I can say about my own district. Many big officer have managed to get loans there. Their factories do not run. They have rented out their industries. I want that an inquiry into it should be ordered. Is our Financial Corporation of Rajasthan prepared to inquire into it to identify the persons to whom loans have been given? The loan has been given to those who are influential and are able to get benefit from it. And is the person who is working a labourer? He is the man who has come from Ladakh or Bihar. He is not getting even his wages. People from Rajasthan are not working there. An article has been published in some magazine which touches this aspect.

[*English*]

Here is an extract from an article by Shri K.K.G. Nambiar published in the *Economic Times* on 24th March, 1984:

"All this persuades one to believe that even after 30 years of their being in the realm of term lending and industrial development, SFCs are nowhere near fulfilling their objectives."

[Sh. Mool Chand Daga]

(Interruptions)

[Translation]

All this has been misappropriated by Brahmans who are not enterprising..(Interruptions)

Marwaris are entrepreneurs; they know also how to enjoy life and how to entertain others.

What is the process of giving assistance to the small scale Industries? The only process is that first of all you offer some bribe at the District Industries office, then only your case will move. Only the sycophant of the Managing Director will be able to get loan.

A good word has been said about how loan is given by the Financial Corporation of Rajasthan. Our colleague Shri Rajhans has made a very good speech. The Members on that side have landed it. I want to know, after all what its objects are. The object is that the people should get loans. I have myself seen that the applications for loans remain intouched for years with the public undertakings. It takes years for them to get loan. They wonder from pillar to post for loan. The moment a signal is received from the top, they get loan at once.

(Interruptions)

It has been said that neither a politician nor an I.A.S. officer should be appointed as chairman. This is no suggestion. You appoint a chairman who can work with honesty and integrity. There are honest politicians also. They are also well aware of the problems of the people. You should make many amendments in this Act. The Bill should prescribe the mode of getting a loan, and the time in which it will be sanctioned. It should also prescribe the time within which assistance will be provided in the event of breakdown of the machinery.

Sir, I would also like to know the number of industries which have become sick due to non-availability of loan from the Rajasthan Finance Corporation and the number of people who got loan under the

self employment scheme stated by the late Prime Minister, Shrimati Indira Gandhi on the 15th August 1983. The loans should be granted to those persons who have not been granted any loan so far the purpose of our Rajasthan Finance corporation is to encourage small industries.

It is not clear from the Bill what the security of the debenture holders will be. What will you recover from the Rajasthan Finance Corporation which does not own a building of its own? There is no security at all. The big people will purchase debentures and will keep them in their pockets. Who will repay them? You tell me who will repay the debentures? I want to know this from the economists. I have yet another point to ask. The Scheduled Castes and the Scheduled Tribes people have received very little money from the Finance corporation. You tell me their percentage? Also tell me the number of industries which have been run by you and the number of those which have become sick. What are the reasons for their becoming sick and what is the time by which they will recover? The House wants to know all this so that it may give some suggestions in this regard.

Some of the amendments proposed by you are quite good and will be beneficial. You have raised the limit. But the position of the Rajasthan Finance corporation, as stated by them, is :

[English]

The loan outstanding at the end of March, 1983 Rs. 13004 crores, and it has gone upto Rs. 1,824 crores in 1983-84.

[Translation]

Now, this much amount of Government is still outstanding. Only god knows when it will be recovered. This will go on swelling. Therefore, what I want to say is that we have not been able to achieve the objectives of the Rajasthan Finance Corporation till today. Some of the amendments proposed are for fixing time limit for giving loan. But it is essential to remove the shortcoming in its procedure of working. Therefore, with a view to achieving that objective, it is better to thoroughly amend this law.

[English]

DR. DATTA SAMANT (Bombay South Central): Sir, Financial Corporations are working for the last 33 years and in a developing country like India, industries need them and there is development. But whatever may be the principle with which it started, it is not at all satisfactory to the small and medium scale industries. It is rightly said by my friend—and I support him—that for a small or medium sized employer or for an honest engineer without having any pull or push at the top to influence the Chairman, it is very difficult to get loans. The vested interests and the big houses get the loans and they use it in various ways. Anyhow, you are making some small changes. But I do not think that giving more loans or increasing their limit for technical know-how, research, etc. will help. I do not know that what is the control that you are having. Ultimately, it is not a question of making laws, but it is a question of implementation of the laws by the people who are going to give these loans. Some big houses will get more money and they will show it on research scheme or technical know-how scheme in their plants. For all these things, they are going to get loans and I do not know whether they will be properly used for the industries or not.

I have seen another difficulty. The Corporation is giving loans to various people. Now, what is the rate of recovery and what is the amount outstanding with the industries which have got the loan? I will point out the case of a number of industries in Bombay. Take for example WG Ford, Wyman Gardens. I think that this Corporation loan is about 4.5 crores of rupees, but the bank loans are about Rs. 30 crores and it has gone upto Rs. 42 crores and everything is gone in liquidation. There are various aspects regarding the people who are taking loans and getting facilities from the Government.

We may discuss the moral principles and laws here. But the people while taking the loan or while using it misuse the loan. I demand in this House that the Minister should give the figures of the outstanding amount of these corporations with the textile business in the houses. In the

Bombay mills, I think, at least Rs. 20 crores to Rs. 30 crores amount must be outstanding and it is in liquidation. As per the textile policy, now, you are going to encourage the same people by giving them loans. What are the provisions to get loans from various banks and other financial institutions? The same people are taking loans from financial and other institutions and also from the finance corporations. What is the coordination? Ultimately, this is becoming a business. Some of these people use these facilities and get the loans by using various approaches and ultimately that particular industry goes into liquidation. Now about 80,000 industries are sick. I can understand that in some of the small industries, the sickness may be genuine, but in many of the industries it is created by the people. The influential element, the vested interest element and some of the industrialists are quite intelligent that they use all the money from Government corporations, from banks and from private sources. And their business is to go into liquidation. Sir, to run the industries in this way is really becoming a business. They are not professional; they are not bothered about the Government; they are not bothered about your banks, and they are not bothered about their workers. I think, even the Government is not bothered about the workers also. That I will discuss some other time. They use this money and plan so much. Now, I can give you examples of M/s Firestone and M/s. Modistone in Bombay. It is not F.C. loan, it is a bank loan. 25 crores of rupees are taken from the banks, whereas hardly Rs. 3 crores have been used for the industries. I do not know, where they have used the rest of the money. What is your control? Are you having any control over these things? How is the money being utilised every year by these people? While granting loans, a lot of vested interests are diverting the money to somewhere else and then they make the industry sick. What about arrears of land revenue? It is impossible for you to recover this money as arrears of land revenue. This is not corporation's money alone, money of the banks is ten times more. So far you have not introduced any good legislations for the workers. So if you consider all these things the recovery that the corporation

[*Sh. Datta Samant*]

will be getting would be small. The employers who are getting the loans and then making the industry sick are not going to give you anything. That is why I request the Minister to give me the figures, the outstanding balance to be recovered by the corporation. What is the money that cannot be recovered from the various sources? Therefore such type of acts or provisions are not going to satisfy any of these users. I think one of the friends from the other side also said it. While giving these loans are you going to see whether these employers are using them properly or not? Why are you running the industry in this country? While running the industry, are you considering how the employers are having their relations with the workmen? Are they giving them genuine salary, minimum wages or not? Even after 40 years of independence, I do not think that the Government has given any consideration to this aspect. You are introducing some amendments here and there, but the basic principles of starting these small and medium scale industries in this country is not going to be solved either by the old Act or by these new Amendments unless they are properly utilised. Finance should be given to the genuinely needy people. I do not think these Amendments are going to satisfy either the need of the industry or of the country.

16.24 hrs.

SHRI Y S. MAHAJAN (Jalgaon) : Mr. Chairman, Sir, I congratulate the Minister of Finance for bringing forward this comprehensive Bill to amend the State Financial Corporations Act in India. The Bill was overdue. The original Act was passed about 35 years ago and though the State Financial Corporations have rendered yeoman service in promoting and developing small scale industry and to a certain extent medium scale industry, in the meanwhile, during the last 35 years the industrial scene has changed completely, with the result that certain amendments in the Act have become necessary. During the 6th Plan, we had expected an industrial growth of about 8% per annum. But the actual achievement fell much below expectations. This rate of growth has to be increased, has to be accelerated during the 7th, and the subse-

quent Plans to ensure generation of employment opportunities for the millions of young men and women who enter the labour market every year. This necessary infra-structure is there for accelerating industrial growth. The atmosphere is also conducive to increasing the rate of development. In fact, some people are of the opinion that we are on the brink of a take-off. In this process, the State Financial Corporations have to play an important part. It is to enable them to do their promotional, development work more vigorously, that the Bill has been brought forward by the hon. Minister.

There are 18 State Financial Corporations in our country, working under the State Financial Corporations Act of 1951. They have done remarkably well, but still they cannot meet the requirements of accelerated development we expect in future. The Bill therefore, removes many of the restrictive provisions of the Act which are no longer relevant. These amendments will enable the Corporation to function as effective development banks.

The first important amendment enables the Financial Corporations to increase their authorized capital from the present limit of Rs. 10 crores to Rs. 50 crores, and even to a higher limit of Rs. 100 crores, on the recommendations of the IDBI. Promotional agencies like the State Investment Corporations and Small Industries Corporations will also be permitted to subscribe to the shares of the State Financial Corporations. These changes will make for integration in the financial and developmental agencies in the State.

To provide larger funds at their disposal, an amendment is being made to enable the State Financial Corporations to accept deposits upto ten times their paid-up share capital, with the approval of the Central Government. They can, and are even being permitted to, raise capital by debentures or by issuing bonds which are not guaranteed by the State Governments. This will help the State Financial Corporations which are functioning efficiently and with profitability, to raise resources of their own.

The amendment will also allow the State Financial Corporations to borrow upto twice the amount of their paid-up share capital, from the Reserve Bank of India against securities. The limit under the present Act is 90% of the paid-up share capital.

All these amendments will strengthen the financial base of the Financial Corporations sufficiently to help the development of all kinds of industrial activities. The Bill, therefore, re-defines the word 'industrial concern', to include all kinds of industrial activities, with the exception of shipping.

The amendment which will be most welcome to the large number of small and medium scale industrialists, is the one which enhances their limits of financial assistance. At present, the State Financial Corporations Act can lend at the most Rs. 30 lakhs to companies and cooperative societies, and upto Rs. 15 lakhs in the case of partnership firms. These limits are being raised from Rs. 30 lakhs to Rs. 60 lakhs, and from Rs. 15 lakhs to Rs. 30 lakhs. These amendments will also enable the State Financial Corporations to assist the medium projects, in participation with other institutions and banks-projects whose capital assets go upto Rs. 30 crores.

The Bill, therefore, seeks to make radical improvements in the scope, capital structure, borrowing capacity and limits of financial assistance by the State Financial Corporations to enterprises-of-small and medium scale.

These changes will enable them to play an important role as development agencies in the industrial field. I recommend this Bill, but before that I would like to answer some of the criticisms which have been made by previous speakers. Objections have been taken to the appointment of IAS officers and politicians as chairmen. The question is not of appointing IAS people or politicians; the question is of appointing a proper man, a man who is knowledgeable and works with integrity. If you do not appoint proper persons, nothing can be done. One hon. member said that these corporations should be allowed to take

risks; they should share in risk bearing projects. The amendment is meant for that. When we move from security oriented on project-oriented basis, it means that the financial corporations undertake part of the risk. Then it is said the introduction of computers will harm the development of small scale industries. The experience in developed countries shows that introduction of computers has not reduce employment; it has increased employment opportunities; that is the conclusion of a committee which enquired into this matter in America. As a result of the use because with the use of computers you have a number of industries producing spare parts and a number of people are engaged in trading these commodities. Therefore, on balance, the employment opportunities increase; they do not diminish.

As regards over-dues, Mr. Daga talked about outstandings. Outstandings are different from over-dues. The over-dues are small if you look at the total statistical information published by the Reserve Bank of India. The over-dues are so small I wonder why the government has made this amendment that over-dues could recovered as revenues land.

Finally, some members want these corporations to function for removing regional imbalances. This can be done provided the State Financial Corporations work hand in hand with Investment and Development Corporations in this matter, Gujarat has provided a model. There the Financial Corporation and Investment and Development Corporation join hands and they go to the doors of the prospective industrialists. Not only they reduce the delay in sanctioning schemes but also offer consultancy services and see that the industry is set up as soon as possible. So, if there is a cooperation between all the Financial Corporations and Development Agencies, if they work together and go to the doorsteps of all the industrialists, then our objective could be achieved.

Naturally, the Bill is confined only to certain amendments in the Bill. The Minister cannot lay down all these things in the Bill itself. The amendments were necessary

[*Sh. Y.S. Mahajan*]

because of the development which has taken place in the last 35 years. They will strengthen\* the financial institutions and make them better able to perform their functions and fulfil their objectives. With these words, I support the Bill.

[*Translation*]

\*SHRI R. JEEVARATHINAM (Arakonam): Hon. Mr. Chairman, Sir I, rise to say a few words on The State Financial Corporations (Amendment) Bill, 1985. This is a well-intentioned Bill and I welcome it wholeheartedly. I have no doubt in my mind that this amending Bill will pave the way for early fulfilment of our young and dynamic Prime Minister's objective of the country.

The parent Act was passed in 1951 and during the past 34 years there has been phenomenal industrial progress in the country. The State Financial Corporations have played the key role in extending the necessary financial infrastructure for the industries. Thousands and thousands of small industries have come up in the country during this period, generating employment opportunities throughout the country. At the same time, the population has also gone up by 100% during this period. This has made the unemployment problem endemic in our country. By paying attention to the development of agriculture in our country, we may reduce the rigours of unemployment to some extent. Agriculture cannot absorb all the educated unemployed in the country. The setting up of more and more industries in the country can alone contain this forest-fire of unemployment. The State Financial Corporations have a vital role to play in this endeavour.

Our late Prime Minister Shrimati Indira Gandhi formulated and implemented the Self-Employment scheme for the educated unemployed in the country. This scheme must be implemented much more vigorously now. Presently, the financial assistance for this scheme comes from public sector banks. But the financial assistance is too meagre for setting up even a tiny industrial unit.

I suggest that the State Financial Corporations must render financial assistance for the educated unemployed in setting up small industrial units under this scheme. It must be ensured that the initial capital investment is provided for them by the SFCs. Only then the menace of unemployment in the country can be tackled to some extent.

I would also refer to another important issue. According to the Report of Reserve Bank of India, in June, 1983 there were 58550 small scale units which were reported sick. In June 1985 this number would have gone up to even 60,000. In June 1983 in Tamil Nadu there were 8111 small scale sick units. I need not say that the capital is blocked up in these units. Besides that has led to unemployment also. Here also the State Financial Corporations should try to rehabilitate such sick units by extending financial assistance. But this Bill has made no provision in regard to this. Due to unavoidable reasons our hon. Minister of State for Finance has not been able to provide for extending rehabilitation financial assistance to small scale sick units through the State Financial Corporations. But I appeal to him that he should initiate steps for setting up a Sick Industries Rehabilitation Financial Corporation in each State for the exclusive care of such industrial units. If they are rehabilitated, again the unemployment problem will be reduced to some extent. This amending Bill provides for the enhancement of authorised share capital of State Financial Corporation to Rs. 100 crores. I would like to point out that with Rs. 50 crores as authorised share capital the Sick Industries Rehabilitation Financial Corporation will be able to rescue the sick units from imminent extinction.

While I welcome that the financial assistance to companies cooperative societies and partnership firms is being increased to Rs. 60 lakhs and Rs. 30 lakhs respectively from Rs. 30 lakhs and Rs. 15 lakhs, it is inexplicable to me why the limit of Rs. 1 crore in the case of industrial concern is being raised to Rs. 3 crores or such higher

---

\*The speech was originally delivered in Tamil.

limit up to Rs. 30 crores. I am also constrained to point that the State Financial Corporations will hereafter concentrate in extending financial assistance only to big industries. The SFC may not take any interest in the growth of small industries. While there are public sector financial institutions like IDBI, ICIC, IFC etc. for extending financial assistance to big units, I do not know why the State Financial Corporation should be burdened with the task of giving financial succour to big industries also.

In these circumstances, it has become an imperative necessity that an indent Sick Industries Rehabilitation Financial Corporation should be set up in each State immediately so that the sick units may be revived expeditiously. I appeal to the hon. Minister of State for Finance that he should pay attention in this matter. With these words I conclude my speech.

[English]

SHRIMATI GEETA MUKHERJEE (Panskura): Sir, in general terms this Bill is welcome because it extends the scope of functioning of the State corporations, gives them some more leeway as regards resource mobilisation, etc. So, to that extent, the provisions that have been proposed are welcome though I am not clear whether in view of the tremendous price rise this broadening of the scope quantitatively will really be commensurate with the present state of affairs and whether that will in reality prove more beneficial than when the earlier limit was fixed. It seems to me that it may become an improvement on the present situation but compared to the present requirement in terms of money probably it could have been made better.

Now some friends have most relevantly posed the question that one should go to the functioning of the State Corporations. Here I would like to say that there are State Corporations and State Corporations. Surely all are not functioning in the same way. But even then we can say that there are State Corporations about whom this complaint is wide-spread that instead of really helping those that they should help i.e. small and medium entrepreneurs, pro-

bably manipulations with regard to people with greater resources are being done from the State Corporations. I think, from that point of view this should be gone into.

Another problem with many of the State Corporations is that those who really are going in for new industrial ventures they often complain that they do not get the necessary expert guidance or advice with regard to the prospect of the industry, raw materials, technical know-how, marketing facilities, etc. It seems to me, to make these things more purposeful really the guidance of these Corporations to new entrants is very much necessary. I think from that point of view, some expert knowledge must be provided by the Corporations and provision should be made for that, if necessary from the financial aspect as well. That may not be just giving salary to a particular person. Like R&D in the public undertakings, these Corporations should also have a provision of their own R&D as far as helping the new entrants is concerned.

Taking advantage of this Bill I would like to point out some things about my State and maybe about certain other States also—some things which are not directly related to the scope of this Bill but surely related to the aims of the Bill. Everybody would agree that these State Corporations should take particular pain to help the medium and small industries. From that point of view, it seems, at the moment, the criterion that has been fixed for the declaration of no-industry district is really faulty.

From my experience I can say that in our state the districts of Purulia and West Dinajpur are the two very backward districts but they do not find their place in the no-industry districts. These are in the 'B' group and not in the 'A' group. I do not know the reason for this arbitrary kind of .. (Interruption).

PROF. N.G. RANGA: Who makes the classification, the Government of India or the State Government?

SHRIMATI GEETA MUKHERJEE: The Government of India, As I have urged,

[Smt. Geeta Mukherjee]

the Planning Commission has now set up a committee to study this aspect and review it. Therefore, I would particularly request the Government to liberalise the conditions for declaration of the no-industry districts because in those areas particularly, these corporations should make a thrust so that those areas develop. That is why I say that this should be gone into.

I will cite another example. Darjeeling in our State is also industrially very backward and as far as going there is concerned it is very difficult, that is, the transport problem is very acute. As I understand, in some states transport subsidy is given for certain areas, but I do not know why Darjeeling has not been covered by that transport subsidy. I am not speaking only for Darjeeling, I am citing this as an example. If you really want to make these corporations purposeful, then lacunae like this wherever they may be, should be particularly studied and those should be really reviewed and rectified. In any case, as far as my plea for Darjeeling is concerned, I think the Minister will take it up with the relevant quarters. And surely also for Tripura because they also have this problem. There are very many others States also. It is not the question of only West Bengal or Tripura, but it is the question of all such places, the entire North-Eastern region... (Interruption).

SHRI PRIYA RANJAN DAS MUNSI : Tripura itself is a no-industry State.

SHRIMATI GEETA MUKHERJEE : Exactly, so, it may be the whole state, it may be a part of the state or it may be certain districts, these problems should be very seriously studied if the scope that is to be utilised. For heaven's sake, prevent such, state corporations which go in for giving loans to bigger houses. In whatever way it may be, stop them from doing that.

[Translation]

SHRI G.L. DOGRA (Udhampur): Sir, I am grateful to you for giving me time to speak. I assure you that I shall not repeat what has already been said. This is a very good Bill and everybody should support it. Two or three things must be taken care of. Some people are misusing the financial

institutions and banks, as has been said by Mr. Daga. Just as bureaucrats are dominant in government in the case of financial corporations also, bureaucracy is ruling the roost and corruption is rampant there. They compel the person who has to take loan from the bank or the financial corporation, to give them bribe and this illegal gratification is ruining our economic structure. It is a very good step that the activities are being expanded, because no body can deny that the present development of small and medium scale industries is due to all these steps. So, it is a welcome step that the activities are being expanded. It is also a good step that the financial limit is being increased further. But one thing must be borne in mind that the person who gets loan does not do the work himself. He gets the work done by others. He reports to exploitation of others.

16.50 hrs.

[MR. SPEAKER *in the chair*]

Loan should be given to those persons who work themselves. Loan should be given to those persons, who are doing work under the selfemployment scheme. Loan should be given in backward areas also what is happening today is that persons having influence get the loans. In Ladakh 7 persons had applied for loan. The person, who should have been the first to get the loan, did not get it. He got the loan only when the matter was brought to the notice of Deputy C.M. The state of affairs in Madhya Pradesh and other States has been revealed here. Unless the Central Government take interest, nothing will happen. The Central Government do not take any interest after disbursing funds to the State Governments under 20-point programme or any other programme. Those funds are misused. If we do not keep a watch on the working of the financial corporations, our system will go away. The employment problem will not be removed thereby because the loans go into the wrong hands. The person who receives loans after giving bribe is not able to repay it. You will have to exercise supervision to prevent all these things. If you do not play your role but remain a silent spectator, then the State Government officers will ruin it. The

reason for the present increase in prices is that some people have amassed huge wealth. They can purchase anything at any price. In super Bazar, sugar is sold at Rs. 5.65 per kg. Whereas at other places it is being sold at Rs. 9.50 per kg. Nobody bothers about it because the people have got easy money in abundance. It is our duty to have a check on it. You will have to ensure its proper functioning. You will have to ensure that loan is given in backward areas. There is need to revive the sick industries. This is part of the game. You will have to take risk for undertaking development work. Our infrastructure should be strengthened more and more. It is the duty of the Reserve Bank of India to see whether this structure is functioning properly or not, otherwise everything will go awry. With these words I support this Bill.

[English]

SHRIMATI BASAVA RAJESWARI (Bellary): Sir, I support this Amending Bill. The measures proposed in the Amending Bill are welcome ones and they are intended to help the small and medium industry entrepreneurs. For the last 35 years the entrepreneurs were facing various inconveniences and this Bill is a measure to remove those constraints.

The share capital has been increased to 200 times from the existing limit it would certainly make the role of the Corporation more useful for the entrepreneurs.

Secondly, the Corporation has been permitted to raise the share capital. This is a good measure and I welcome it. Apart from this, there should be a time schedule for sanction of these applications. There is inordinate delay at the time of sanctions. Once the entrepreneur gets an industrial licence it takes years for him to get the sanction from the financial institutions. At the time of the renewal of the industrial licence or letter of intent, the Department insists on the progress for which the entrepreneur is not at all responsible. It is not due to any fault on the part of the entrepreneur but due to lot of delays which take place. The entrepreneur has to approach the scheduled banks for bridge

finance. He goes to these financial institutions because of the delay in the sanctions. He has to incur heavy expenditure towards interest which will certainly burden the entrepreneur. Therefore, I would suggest that there should be a time-bound programme at the time of the sanction of the applications. Whenever any application is received, unless there are some extraordinary circumstances, the application should be sanctioned. We find that there is no cooperation between the IDBI and the financial institutions and also the Government of India in the Department of Industrial Development. It is the Industries Department which has to look after the capacity utilisation. Once the industrial licences are given, the financial institutions should come forward to assist them. But what happens is, once the licences are given, the financial institutions refuse to sanction the loan. Then the entrepreneur is put to lot of inconvenience. Once the letter of intent is given, it is the duty of the financial institution to sanction the loans at their respective branches.

Sir, there are number of industries which are declared as Sick Industries. They have become sick for various reasons. But ultimately become defaulters. For the disposal of such sick industries there are no proper arrangements. It is only the Management which disposes of such industries. So, I suggest that there should be proper guide lines as far as these sick industries are concerned. It is always a one man's show. Therefore, I suggest that this thing should be given wide publicity so that each entrepreneur will be in a position to know which are the industries which are sick and for sale.

Then, Sir, there is a Clause which says that the arrears of the Corporation will be recovered as arrears of land revenue. I very much doubt whether this will be sustained because all these loans are secured loans. Now what will happen is this. If the Corporation is permitted to recover this as arrears of land revenue, the other institutions will follow the same method which will certainly amount to lot of hardship for the defaulter. So, I am against this clause and I suggest that this should be totally removed.

[*Smt. Basava Rajeswari*]

When they go to the financial institutions, sometimes they say that only certain technology is approved. For example, when they go to a financial institution for sanction of loan for a mini steel plant, they say that only V.S.K. Technology is approved. Sometimes they say that only certain capacities are sanctioned; sometimes they say 200 tonnes per day and sometimes they say only 50 to 100 tonnes per day. So, these things are coming in the way of the entrepreneurs setting up industries. Therefore, I suggest that there should be specific guideline in this respect as far as these industries are concerned.

17.00 hrs.

Once the entrepreneurs are in difficulties, I think it is the responsibility of the concerned financial institution to give finances to them.

Another thing is, there are small entrepreneurs, who have borrowed from the financial institutions, like the flour mills, saw mills and those for setting up of oil mills. For various reasons these people are not in a position to repay the loans, either principal or interest. Therefore, in regard to those small people who have borrowed money to the extent of Rs. 25,000 and below, after a long time knowing fully well that they are not in a position to repay the loans, their interest should be written off and principal should be recovered in easy and equal instalments from them.

With these words I support this Amending Bill. This amendment provides wider scope for the financial institutions to undertake this business. This will, *inter alia*, enable them to undertake research and service relating to marketing and investment, carry out techno-economic studies, provide technical and administrative assistance to industrial concerns, plan and assist in the promotion and development of industries, discount bills of exchange promissory notes, etc. The said expansion will enable them to undertake promotional and developmental work and play the role of regional development banks,

*(Interruptions).*

So, this is a good amendment. With these remarks, I thank you very much for giving this opportunity.

SHRI G.M. BANATWALLA (Ponnani): Mr. Chairman, Sir, there can be no doubt that the financial corporations must gear themselves up and must equip themselves for the emerging challenges of the Eighties.

MR. SPEAKER: Speaker is in the Chair!

SHRI G.M. BANATWALLA : Mr. Speaker, Sir, several restrictive provisions were there in the Thirties and one cannot object to this particular point that now those restrictive provisions of the Thirties are not relevant in the present days. Therefore, on this count I rise to welcome the Bill. It is, indeed, a radical Bill and a bold Bill wherein we have provisions to tackle, as I said, the emerging challenges of the Eighties.

Sir, one must welcome wholeheartedly every effort to broaden the share capital of our State Financial Corporations. One must welcome every effort to augment the resources of the State Financial Corporations so that they can play a better and greater role to accelerate the industrial development of our nation.

One must also welcome every effort in order to increase the efficacy of our State Financial Corporations to provide Finances and assist the various units.

Sir, while in general, I say that I am in agreement with the provisions of the Bill, I have risen only to strike a note of caution. We are told that the present provisions of the Act with respect to granting of assistance to industrial concerns have a restriction, i.e. that the assistance can be granted to such industrial concerns which have paid-up share capital and free reserves up to Rs. 1 crore. It is proposed to relax this limit of Rs. 1 crore up to Rs.30 crores. In other words, it will now be possible for any State Financial

Corporation to assist an industrial concern which has a share capital up to Rs. 30 crores. Here, I must respectfully submit to the House that there is a certain social obligation as far our financial corporations are concerned. Their main objective has been to assist the small scale sector. Now, here this relaxation is given with a view to enabling them to come even to the rescue of the large scale sector and to grant loans and assistance to these large business houses also. In making this relaxation, the note of caution that I have to strike is that the small scale sector should not be neglected. That is the point which must be taken into account very carefully. Even as the situation today stands, the small scale sector feels neglected. It has been one of the demands of the small scale sector that there should be a financial agency exclusively for it. On the contrary, now we have this position that the financial corporations which were supposed to come into existence for the purpose of helping and assisting our small scale sector are now looking forward towards assisting the large business. Uptil now, good work has been done, I must say, by the State Financial Corporations in the service of the small scale sector. I find that the share of small scale units in the total sanctions made by the Financial Corporations—18 Corporations that we have—has shown an increased trend. For the year 1979-80, 63.1% of the total sanctions made by all these State Financial Corporations was for the small scale sector. In 1980-81, the percentage rose to 68.7. In 1981-82, the percentage further rose to 69.5 and so on. Therefore, we find a very healthy trend that is growing with regard to the assistance to the small scale sector.

But now, Sir, with this provision that the Financial Corporations will be in a position to give assistance to such industrial concerns which have a capital up to Rs. 30 crores, I am afraid, the small scale sector and the consideration of such classes like the educated unemployed and others may suffer.

Therefore, my plea to you while striking this note of caution is, to see that our basic industrial culture remains unaffected. We have a basic industrial culture. We want

our small-scale sector to play a key role in our industrial economy.

Therefore, while welcoming the Bill and while striking a note of caution here, I have to make a suggestion and the suggestion is that the Central Government itself should prescribe in its rules, a system of priorities so that the basic industrial culture of ours remains unaffected.

I must also say a word about the recoveries. The recoveries is a matter which must be taken seriously. Between the year, 1977 to 1982, the total overdues of the financial corporations have increased. Some hon. Member here said that it was negligible. But it has increased from Rs. 92 crores to Rs. 267 crores. Therefore, strict measures are needed on this particular point.

At present, the Amendment Bill seeks to change the present security-oriented approach to the project-oriented approach. I welcome this but, at the same time, it has also been provided that debentures can be issued by the financial corporation now, without the requirement of a guarantee by the State Governments.

Now, on the one hand, you find the policy changes are greater risk-oriented. We find that the policy changes are made in order to allow financial corporations to have more and more borrowings and, at the same time, we are relaxing this particular condition that the State Government need not guarantee the debentures issued by the financial corporations. This will not be good for the fiscal health of our economy and, must, therefore, be seriously considered by the Government.

With these words, having struck a note of caution, I support the Bill.

17.13 hrs.

STATEMENT RE : PRIME MINISTER'S  
RECENT VISITS ABROAD

[English]

THE PRIME MINISTER (SHRI  
RAJIV GANDHI) : Mr Speaker, Sir, I  
seek leave to make a statement to the House