

Bill

is not an easy job. It is going to be a difficult job and I do not want in the initial stage to make it still more complicated. But the point that he has made will certainly be kept in mind.

The point raised by my hon. friend, Mr. Azad, is no doubt worth consideration but it has been disposed of day before yesterday. I do not know whether he was here.

Shri Bhagwat Jha Azad: I was present.

Dr. Keskar: I do not want to repeat the answers that I gave that day. I will only say here that there is no question of rules. It is here a question of announcing a price page rate and it is not included in the same category as other rules or schedules.

Dr. Lanka Sundaram: That is, your approach is not going to be punitive.

Dr. Keskar: I think it will give rise to great difficulties for the press as well and, therefore, I hope he will not press his viewpoint and I am sure the House will pass the Bill.

Mr. Speaker: The question is:

"That the Bill be passed".

The motion was adopted.

STATE FINANCIAL CORPORATIONS (AMENDMENT) BILL

Mr. Speaker: The House will now take up the further consideration of the following motion moved by Shri A. C. Guha on the 24th August, 1956, namely:

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

The time allotted for this Bill was four hours, out of which we have already taken 47 minutes. The balance is 3 hours and 13 minutes. We will allot 2½ hours for the general discussion and half an hour for clause-by-clause consideration.

Shri Bansal (Jhajjar-Rewari): Mr. Speaker, before I come to the provisions of the Bill, I should like to

revert with your permission to the question of information relating to the work of the various State Financial Corporations which has been placed before this House. The hon. Minister was pleased to say that day that whatever information I wanted was supplied to me two days before the discussion was scheduled to take place here. I beg to submit that in this particular respect he was not properly informed by his department.

The Minister of Revenue and Defence Expenditure (Shri A. C. Guha): I should make the position clear. I was under the impression that the report which contained about 120 pages was placed on the Table of the House. But the difficulty is that they could not prepare all these pages and they could not verify the figures. So they placed only a summary. That was a mistake.

Dr. Lanka Sundaram (Visakhapatnam): Only a summary was placed in the Library.

Shri Bansal: I was given only some 7 to 8 pages. After that, when you were pleased to postpone the discussion, a bigger summary consisting of about 100 pages was placed in the Library. From that summary itself, from page 5, I find there is reference to the various obligations of the State Financial Corporations.

The first three obligations, in my opinion, clearly make it incumbent on the Government of India to place all the relevant information in the Library of Parliament. The first obligation here says that the State Governments and the Reserve Bank are to be supplied detailed reports on the working of the State Financial Corporations within three months of the closing of the year. The second obligation says that the Financial Corporations are to submit monthly and quarterly statements showing their assets and liabilities and investment position etc. to the Reserve Bank. The third obligation says that annual accounts are to be audited by the auditors to be appointed by the State Governments in consultation

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with the Comptroller and Auditor-General of India.

From this it is clear that the Reserve Bank and the Auditor-General come in the picture as far as this Financial Corporations are concerned. What is more, if you see the capital structure of these State Financial Corporations, you will find that we, this Parliament, have a definite right to go into the affairs of these Corporations inasmuch as, according to my calculation, the Reserve Bank and the State Bank of India, as compared to the institutional investors and insurance companies, hold a major portion of the shares, about 40 per cent. of the capital of the various State Financial Corporations and if we have a stake of as much as 40 per cent. in the various Corporations, I am sure, it is incumbent on the Government of India that they should place all the relevant information before Parliament so that they can keep a close watch on the activities of these Corporations. I will not labour this point any further but will only submit that in future we should be supplied not only with these double-distilled summaries but with the full reports of the various Corporations. I do not see as to what difficulty is there in Government of India asking the Reserve Bank to supply at least two or three copies of the various reports of these Corporations and place them in the Parliament Library. After all, the Reserve Bank authorities receive all these reports within three months of their submission to the State Governments concerned. From whatever information has been given in these 100 and odd pages, although it looks impressive, I must say, I have not been able to get much enlightenment from these summaries. I will point out where I have failed to obtain information which, in my opinion, is very relevant for coming to any conclusion as to the efficiency with which these corporations have been functioning. Before I go into that, I would like to discuss briefly, if I may, the working of these corporations.

So far, there are 13 corporations. The first came into being in 1953. That and some other corporations have been working for three years, some have been working for two years and others for one year. The authorised capital of the corporations is Rs. 25 crores. Out of that, the issued capital is Rs. 10·5 crores. That is, 42 per cent. has already been issued. Of this authorised capital which the various corporations have got in their possession, only Rs. 2·7 crores has been given so far as loans and advances. The sum invested in Government securities is Rs. 4 crores. The sum deposited in the various banks is Rs. 3·3 crores. That means, out of Rs. 10·5 crores of capital which the corporations have, about roughly three-fourths are invested in Government securities and in various banks. The result of this is, in subvention alone, the State Governments have had to fork out within this brief period Rs. 35 lakhs. That means about 61 per cent. of the dividend that had to be statutorily paid had to be met by the State Governments. I know that the State Governments themselves receive a share out of the subvention. The net loss to the State Governments has been of the order of Rs. 11·5 lakhs. I want to know if this picture will hearten anybody. It may be said that these corporations have been working for a very short time and therefore, the subvention in the beginning has necessarily to be large. What passes my understanding is, how is it that out of the authorised capital of Rs. 25 crores, about Rs. 10·5 crores were actually issued. Why did not the various corporations issue a smaller amount so that they do not have to waste money in providing the necessary subvention?

Dr. Lanka Sundaram: Why should dividend be guaranteed on this basis?

Shri Bansal: The guaranteed dividend is only 3 per cent. I do not think that is a very onerous burden. After all, whenever the Government want any loan, they are also paying

about 4 per cent. or 3½ per cent. Here, they are paying only 3 per cent. I do not think that one can get away from the fact that some sort of a dividend must be guaranteed. What I have not been able to understand, I repeat, is why so much money was issued, if the State corporations were not sure as to how much will be taken by way of loans.

I am not going into the question as to which particular State Corporation has been functioning properly and which not. There is a mention of that even in this brief summary. In order to find out whether these corporations have been working efficiently or not, one criterion is that of expense ratio. I have seen this summary. The authors of the summary have carefully avoided this question of expense ratio. On the other hand, they have tried to relate the expenses with profits which, in my opinion, is a very unscientific method of calculating the expense ratio. In my opinion, the proper expense ratio would be the percentage of administrative expenditure over the total amount of loan sanctioned. If I calculate on that basis, I find that in one State where the corporation is supposed to have functioned most efficiently, the expense ratio is about 2.6 per cent.

Dr. Lanka Sundaram: What is that State?

Shri Bansal: Travancore-Cochin.

In West Bengal, it works to 3.4 per cent. I have worked these out myself. There may be a slight difference here or there. But, I think, more or less, these are correct figures:

Travancore-Cochin	2.6 per cent.
West Bengal	3.4 per cent.
Saurashtra	6.5 per cent.
	and
Punjab	12 per cent.

I shall compare this expense ratio with the expense ratio of the Industrial Finance Corporation. There, the figures are:

1948-49	.8 per cent.
1949-50	1.27 per cent.

Shri M. S. Gurupadaswamy (Mysore): To income?

Shri Bansal: To the total loans.
1950-51 2.1 per cent.
1951-52 1.28 per cent.

I have already given figures ranging up to 12 per cent. in the State corporations. In the U.K. the expense ratio works to 0.52 per cent. in respect of their bigger corporation and in the smaller corporation, it is 0.6 per cent. I think this will show that these Finance corporations have failed to work in a manner which could give satisfaction to any Member in this House. I would seriously suggest to the hon. Minister to take some steps to see that the expense ratio is reduced and also loans are granted more expeditiously and there is a balance in the capital structure and the loans that are issued.

Now, I come to the amendments. As far as these go, I do not have much to say either in favour or against the amendments. But, I would like to throw a suggestion for the consideration of the hon. Minister, in the light of the working of these corporations, whether the time has not come when we should really review the entire position in regard to the State Financial Corporations. In the three years, only Rs. 2.8 crores have been given out by way of loans and debentures in 12 States. I think this is an infinitesimal fraction of the capital requirements of the small and medium scale industries. There must be something seriously and inherently wrong with the functioning of the corporations. I think it will be beyond practical reasoning how to make these corporations work in such a way that they would be able to meet the capital requirements of the growing industrial sector which we are planning in the small and medium scale industries in the country. Therefore, my suggestion is that, instead of maintaining these State Financial Corporations as separate institutions, let their working be integrated with the State Bank of India. The State Bank of India is a Government enterprise. It also gives money

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on short-term credit to industrial and commercial houses. I suggest that this question of medium and long term loans should also be gone into carefully. The State Bank should be in a position to take up the functions of these State Financial Corporations.

As you will remember, the Shroff Committee also made a suggestion to this effect that somehow our scheduled banks and commercial banks should be placed in a position where they will be able to help the industrial development of the country by making medium and long-term loans. My suggestion is, let the State Bank have three distinct sections: a commercial section, an industrial section and an agricultural section. The commercial section will take care of the ordinary commercial loans; the industrial section will look after the normal functions of the medium and long-term guarantor and creditor to the small and medium-scale industries which require such credit. In the industrial section, there can be an investment credit section which will stand as security against industrial shares and debentures. It is not difficult to provide some sort of mechanism where these two departments would, more or less be self-adjusting. The industrial section which will look after the loans proper will be able to take care of the functions that are now being handled by the State Financial Corporations. The State Bank of India has branches in all the four corners of our country. It should not be difficult to have one managing director in charge of the industrial section with a small committee which will advise him on this loan aspect of the small-scale and medium industries. There could be one representative of the State Bank at the various State capitals where the State Financial Corporations are functioning at present, and under the guidance of the State Bank of India and that committee at the headquarters of the State Bank, this loan policy to these industries could very easily be handled.

Perhaps you are aware that even now the State Bank is having a pilot scheme to assist by medium and long-term credit the small-scale industries. I do not know how far that pilot scheme has succeeded, but the fact remains that the State Bank is experimenting on that pilot scheme. I do not see any reason why the activities of the State Financial Corporations cannot be handed over to the State Bank. After all, those are the people who are in touch with the requirements of the small and medium-scale industrialists and they will be able to handle this question of credit to the industries much better than these newfangled organisations of the State Financial Corporations.

After all, banks know very well how to handle the credit mechanism. They could advance loans on conditions less rigorous than those on which the Financial Corporations are granting. I see it is one of the purposes of this amending Bill to reduce the rigours of the law so that loans can be given to the small-scale and medium-scale industries on slightly less onerous terms. I submit that the State Bank of India will be in a much better position to do that and also to take care to see that the moneys which are lent to the people who want them are not in jeopardy. If this suggestion is accepted I am sure that much that we are seeing today by way of the inefficient and unsatisfactory functioning of the State Financial Corporations will not be there, and I am sure the credit mechanism of the country which we want will be there so that the small and medium sections of the industry will also be helped in a much better way thereby. I place this suggestion in the hope that the hon. Minister will consider it in the spirit in which I have offered it and not think that I am trying to draw a red herring. I am sure the House will give due consideration to my suggestion and that we will now try to gear up the machinery of the State Bank in order

to subserve the purpose which these Financial Corporations were supposed to subserve and which they have failed so miserably in doing.

Dr. Lanka Sundaram: When last week I had the honour of moving for the adjournment of this debate I had hoped that in terms of the unanimously expressed wish of this House my hon. friend Shri Guha would make available, at least a few copies to be placed in the Library of the House, as far as the working results of the State Financial Corporations were concerned. I have to reveal this point that when I spoke to my hon. friend a little while ago in the lobby, he had to tell me—I am afraid I have to concede his helplessness—that he could not get hold of the copies of the annual reports of the State Financial Corporations to be placed on the Table of the House. You, Mr. Speaker, would recall that a number of times this House was exercised very seriously about the manner in which public corporations which were set up under the laws passed by Parliament are not amenable to examination by this hon. House. I had the honour to lead at least two debates on parliamentary control on public corporations and on the Industrial Financial Corporation itself. I remember at that time my hon. friend Shri Guha was sitting here, and gave me tremendous support to make sure that Caesar's wife was above suspicion, that the activities of the Industrial Finance Corporation were above board. I am glad that since he went over to the other side and occupied a place in the Treasury Benches he has done his best to ensure that the Industrial Finance Corporation is put on a fairly sound basis.

Shri A. C. Guha: After the amendment of that Act, the record of the Industrial Financial Corporation has been improving considerably.

Dr. Lanka Sundaram: I am paying a tribute to my friend for the very unobtrusive but steady work he has been doing since he has been elevated

to the position of a Minister, but that is a small point.

I would like to have your personal attention, Mr. Speaker, on one point. A few minutes ago you intervened when a request was made for information and for an opportunity of discussing the affairs of the proposed Insurance Corporation. Every time the same plea has been put forward on behalf of the Government: "Oh, these corporations are autonomous. After all, they are corporations. We cannot possibly interfere in their day to day work" and so on and so forth, but the question is a very important one as far as I see it. This House has been watching this particular proposition for the past 4½ years, if I am not mistaken, namely that laws are passed by this House to enable corporations being set up, and immediately they go behind the ring-fence, they cross the Rubicon and say it is forbidden territory, you cannot look into it, there are people there who discharge their duties and so on and so forth. Whether it is the Damodar Valley Corporation or the Industrial Finance Corporation or Sindri or the Shipyard or the Financial Corporations for which this Bill has been brought forward, the same proposition has come before us times out of number. I request you that, now that this House is going to, almost, come to the end of its life and fresh elections are coming forward, fundamental precedents must be laid down as to the manner in which the rights and privileges of this House in relation to the working of the corporations set up under the laws passed by Parliament are put beyond any shadow of doubt. I am sure that there would not be any point in this House debating the working of these industrial finance corporations of the various States, thirteen in number, without having access to the working results of the corporations. I regret that even in the face of the unanimously expressed wish of the House last week my hon. friend was unable to get access to, and more so make available, the reports of the various financial corporations, and I am sure

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you, Mr. Speaker, will look into this matter as one of principle.

Shri A. C. Guha: Here again I have to intervene. Since I spoke to him in the lobby I can say that I got the copies; they were received only yesterday. If I place them now, then again the question will come that they have not been placed in time. For the future we shall see, but for the present I have just got the copies except for one corporation.

Dr. Lanka Sundaram: This was not the point as put to me by the hon. Minister in the lobby, but the point is if you had only moved for an adjournment of the debate I am sure this House would have been agreeable to postpone it to a suitable date. It is an obligation on the part of the Government, and I am sure you, Sir, will enforce it, that Government shall have to circulate the information sufficiently in advance or they must make arrangement for postponing the debate on the matter. The House would agree to deferring the discussion. We have to do the best we can in the present circumstances with such of the incomplete and defective information as has been made available to us or as has been obtained by us on our own.

This is an enabling measure and I welcome it wholeheartedly. It is a measure trying to amend an earlier Act of 1951, but being an enabling measure I feel very strongly on the point that the Government must have the means and the decision to make sure that once this Bill is placed on the statute book, the corporations which are sought to be set up within the ambit of the Bill are run properly, and I am here to say that they are not being run properly, and I would like my hon. friend to give the House evidence to the contrary. In another place in one of the committees of this House in which I had the privilege of working, this question came up last month, and I am now trying to analyse such of the information which we were able to

obtain on request in that committee of the House, because I find that this 110-page document, which my hon. friend was good enough to send me and also to other friends does not give this information in the manner in which it was then sought to be given to us.

I would direct the attention of the House to the capital structure of these corporations. I have got here information for eleven corporations, whereas, I find now that there are thirteen in all. So far as Assam is concerned, the authorised capital is Rs. 2 crores, issued capital is Rs. 1 crore, the State Government's share is Rs. 50 lakhs, the Reserve Bank of India's share is Rs. 15 lakhs, and the share of the financial institutions like banks and insurance companies is Rs. 30 lakhs.

Shri Bansal: Insurance companies are now managed by Government. The hon. Member should bear that also in mind.

Dr. Lanka Sundaram: This document was given to us a few days ago. In fact, I shall have to quarrel with my hon. friend Shri Bansal in a little while about the suggestion he has made about the State Bank coming into the picture. I hope he will bear with me for a few seconds.

The capital structure of the corporation is based on a principle, which, to my mind, is unexceptionable, namely the broad-basing of the capital structure, and the placing of the capital responsibility on various shoulders. That is why I was reading out the capital structure. Now going back to Assam, I find that the share of the other investors—I take it that they are private investors,—is Rs. 5 lakhs. In the case of Uttar Pradesh, the authorised capital is Rs. 3 crores, the issued capital is Rs. 50 lakhs, the State's share is Rs. 18 lakhs, the Reserve Bank of India's share is Rs. 7.5 lakhs, the share of the financial institutions is Rs. 19.5 lakhs, and that of the other

shareholders, namely the private shareholders is Rs. 5 lakhs. In the case of Bihar, the authorised capital is Rs. 2 crores, the issued capital is Rs. 50 lakhs, the State's share is Rs. 20 lakhs, the Reserve Bank's share is Rs. 7.5 lakhs, the share of the financial institutions is Rs. 175 lakhs, and that of the private shareholders is Rs. 5 lakhs.

There are permutations and combinations, but I would like to draw one principle from the capital structure of the vast majority of the financial corporations that have been sought to be set up since 1953, namely the broad-basing of and the responsibility for finding the capital for the various corporations.

I deliberately chose to give the position in the case of Uttar Pradesh and Bihar, because these are some of the big States in our country. But we find here that the share capital is normally about Rs. 2 crores of authorised capital for almost every State corporation. It varies, according to the figures supplied to me officially, from Rs. 17.5 lakhs to Rs. 54 lakhs, out of Rs. 2 crores, i.e. up to four annas in the rupee. I consider, that taking together the contribution made by institutional investors like banks and insurance companies and also by private shareholders, up to five annas in the rupee, if not more, is supplied by institutions and individuals, other than the State Government and the Reserve Bank of India. I consider—and I am sure my hon. friend Shri A. C. Guha will not dispute my position—that this is a very proper and appropriate manner in which the share capital of any industrial finance corporation has to be raised.

This being the case, we in this House are charged with the duty,—because we are passing the legislation, and we are giving the enabling powers under which the financial corporations are to be set up; of seeing that these institutions are properly managed.

I was very keenly interested in some of the observations made by my hon. friend Shri Bansal, but I shall try to approach this problem from a slightly different angle from what he has chosen to take, in regard to the method of approach to this Bill.

Talking of subventions—this arises because of the guarantee of dividends—I find from the chart circulated to us by Shri A. C. Guha the phrase:

'Subventions as percentage of dividends paid'.

Who paid these? Obviously, the State Governments must have paid them; if not the State Governments, qua, they must have been paid at any rate, from a pool into which the funds of the Governments have been put. If the House would bear with me, I shall read out a few figures. These are astounding, as regards the manner in which dividends are sought to be guaranteed by Government for activities which are not there.

I shall try to develop the point in a minute, because I find that some of my friends are rather slightly surprised at the way in which I have put it, because I said 'for activities which are not there'.

In the case of Punjab, in the first year, the subvention given worked out to 93.3 per cent. of the dividend paid; in the second year, it was 53.7 per cent., and in the third year, that is, the last year, it was 47.7 per cent. In the case of Saurashtra, during the three-year period which I am now examining, the subvention given to the finance corporation by the State varied from 80.1 per cent. to 48.6 per cent. In the case of Bombay, it varied from 92 per cent. to 69.4 per cent. and to 54 per cent. And so it goes on. I have got here one example of Madhya Bharat where the subvention given is a hundred per cent.

Having said this, I would like to examine this from a different angle, from that adopted by my hon. friend Shri Bansal, as to what he called the expense-ratio. My hon. friend has

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given us figures here, and compared them with the figures of overall expense-ratios in U.K. in the first instance, and in the case of the Industrial Finance Corporation here, later on.

Here is a statement circulated to us by Shri A. C. Guha, with a certain amount of kindness, and I am going to quote it briefly. These are the figures regarding administrative expenses as percentage of the total income. Again, during the three-year period which I was examining, in the case of Punjab, it varied from 72.8 per cent. to 31.5 per cent. In the case of Saurashtra, it varied from 41 per cent. to 16.3 per cent., while in the case of Bombay, it varied from 63.4 per cent. to 23.5 per cent. I concede the point that it is going down. In the first year or the second year or the third year, the expenditure will be proportionately greater than in the subsequent years. In the case of Travancore-Cochin, which has been posed here as the most ideal example of a State Financial Corporation, it varied from 34.8 per cent. to 12.2 per cent.

And here is an extraordinary example. In the case of Madhya Bharat, it was 133.3 per cent. in the first year of its existence. In other words, whether you take it in terms of the capital structure, or in terms of the dividends, subvention or subsidy paid, the working of these institutions—considering the vital principles involved, principles, which I regret to say, have not been properly noticed by my hon. friend Shri Bansal a little while ago; I hope to come to them in a minute—has not been such as to give us confidence in their immediate and near future, with the result that some of us in this House, who have been rather concerned with the manner in which these corporations are sought to be managed—whether it be the Industrial Finance Corporation or the State Financial Corporations—have been anxious to have access to data; and

I express my regret for the last time in this debate that my hon. friend was not able—I do not say, he was unwilling—to help us to get the data to which we are entitled. I hope, in future, as he has promised a little while ago, this default will not be there.

If the House will look into the Statement of Objects and Reasons, it will come across two very important statements. In para. 2, we find the reason why this Bill has been brought forward, namely that it is intended to overcome the difficulty felt by certain States in regard to the establishment of separate financial corporations. That is a very small point. Then, later down in para. 2, we find:

“It is also proposed to amend section 25 of the Act, so that industrial concerns engaged in small-scale and cottage industries, not having sufficient tangible assets, may avail themselves of the financial accommodation from State Financial Corporation.”

I ask, and I am prepared to yield ground to my hon. friend Shri A. C. Guha if my assumption is wrong, whether or not this is a pivotal point on the basis of which the amending Bill has been brought forward before this House. I shall put it in a positive way. In order to assist cottage and small-scale industries, this Bill has now been sponsored, so as to enable the propositions in the States to be processed, whereby every State can have a financial corporation, either in its own right, or in conjunction with neighbouring States. Or, to put it in other words, the paramount obligation undertaken by the Government of India, in terms of the Five Year Plan, and of the Second Five Year Plan in particular, to foster and build up cottage and small-scale industries is intended to be helped by this enabling measure.

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If this is the case, then what is the performance of these State Financial Corporations? How are they placing their loans? What are the terms which the loans are given? How are the loans serviced? How are they being recovered? These are three or four points which I shall briefly discuss with your permission.

At page 6 of the document which Shri A. C. Guha was kind enough to circulate to some of us, we find a tell-tale story.

With your permission, I would like to take this opportunity of pinpointing this very important issue. I am here to say without any compunction at all that, as stated in the Statement of Objects and Reasons, this Bill enabling the State Financial Corporations to be formed and to function within the ambit of the Bill, will not assist cottage and medium scale industries, all because of the fact that the interest rates are unconscionable. I am amazed to know the manner in which interest is sought to be collected by the various State Financial Corporations. I am quoting from the statement given; if there is any adjustment—I say this because there is a note by the Finance Ministry to the effect 'subject to verification'—I am prepared to stand corrected.

I am sure the House will realise that basically these interest rates as given at page 6 of the 110 odd pages of notes supplied by Shri A. C. Guha, will not be disputed as being incorrect. In the case of Punjab, the rate of interest per annum is 6½ per cent.

Shri Bansal: The rate is 6½ per cent.

Dr. Lanka Sundaram: I am coming to it. I hope, my hon. friend will bear with me for some time.

In the case of Saurashtra, it is 6 per cent., Bombay 6 per cent., Travancore-Cochin 6½ per cent., Hyderabad 6 per cent., West Bengal 6 per cent., Assam 6 or 7 per cent.,

Bihar 6 per cent., U.P. 5½ per cent., Rajasthan 6 per cent., Madhya Bharat 6 per cent. and Andhra 6 per cent.

My first question is this: since this hon. House is passing this legislation, why was not a uniform rate enforced all over the country? Why does not the Finance Ministry, or for that matter, the Reserve Bank of India, use its good offices to make sure that there is one uniform rate of interest for every part of the country where there is a State Financial Corporation functioning? I think the House is entitled to an answer. I hope the Minister will, while replying to the debate, answer this point.

But this is a small point compared to the bigger issue. Why should the State Financial Corporations try to function as Kabuli moneylenders? What is the bank rate? What is the difference between the bank rate and the rate sought to be collected from the so-called cottage and medium-scale industries, to benefit which the State Financial Corporations are being maintained in this country? Where do the cottage and medium scale industries get the money from to pay these exorbitant rates of interest? I know that in certain other countries like Germany and Japan, there is provision for a higher rate of interest; I am not unaware of that. But I ask, in the peculiar economic and other circumstances of this country, can this schedule of interest rates, ranging from 5½ per cent. to 7 per cent., be considered equitable? Leave aside equity. I ask him, can he tell me that on the basis of these interest rates, cottage and medium scale industries can be fostered in this country? And what is the purpose of the Government giving such huge subventions, concerning which I quoted figures a little while ago, if the interest rates are not reasonable and within the means of the average people in the villages? These are questions of vital principle, and these are questions which must be discussed not only within the ambit of the objects and reasons of this Bill as stated by the Minister in the docu-

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ment before us, but also in terms of the implications of the most important clauses of the Bill itself.

I hope, now that this debate is going on, Government will make an attempt to ensure that these rates are completely watered down, that these rates will not become unconscionable, that these rates will be reduced to a reasonable level which will enable the applicants for loans from these Financial Corporations to obtain them in a manner which can be serviced by them out of the profits they make. Unless and until this particular question of interest rates is tackled properly, I regret to say that this Bill will not be helpful as far as the fostering of small scale and cottage industries, in terms of paragraph 2 of the Statement of Objects and Reasons of the Bill and the statement made by Shri A. C. Guha, is concerned.

There is one aspect of the question which I would like my hon. friend, the Minister, to examine and give us information about. Here I would seek your guidance. In the Joint Committee on the States Reorganisation Bill when the question of the division of assets and liabilities of the Bombay State Financial Corporation came up for discussion, some of us raised these issues. We sought information and we found—I do not know how far I can give the House that information which is rather scrappy, and which, in any case, is related to one single Financial Corporation—that the vast proportion of the moneys so far lent have been written off or taken for granted as bad debts. Now, I would ask my hon. friend to tell us—because the House would like to be enlightened about it and I am sure he would undertake this obligation—as to what amount of money so far actually lent has been considered as good investment.

Here, according to the information which I was able to collect—outside the scope of the note which Shri A. C.

Guha was good enough to supply us—I have figures as follows. For the 11 Corporations, for which I have got information here, the total authorised capital is Rs. 23 crores, the issued capital is about Rs. 10·5 crores, the State Governments' share is Rs. 34·7 lakhs, the Reserve Bank's share is Rs. 1·40 crores, the share of the financial corporations is about Rs. 40 lakhs, and that of other investors about Rs. 60 lakhs. You have to take the total amount of money placed in terms of investments. I am sure my hon. friend, Shri A. C. Guha, will not grudge making an investigation right now so that when he replies to the debate, or at any rate, at the time of the third reading of this Bill—there is still time for us to wait for that—the House is enabled to know how much money has been wrongly invested, has almost been written off as bad debts.

I am here to say with a sense of responsibility based upon my little investigation, both official and non-official, that 50 to 60 per cent. of the total money so far lent can be written off as now irrecoverable. If I am wrong, I would like to be corrected by my hon. friend, Shri A. C. Guha. If this is the position of the State Financial Corporations, what is the duty and obligation of this House in terms of making legal provisions for their functioning in future and for seeing that they are tightened up?

I would not like to make a political speech on this occasion. But I would like to say this. The manner in which applications are processed by the various State Financial Corporations is something which has got to be looked into immediately. I am sure the Government of India, in terms of the fairly enormous powers that they have today under the provisions of this Bill, even as under the provisions of the 1951 Act, can give directives to the States to ensure that there is no case of

favouritism—I would not say anything more—in terms of the granting of loans.

I have some experience of my State. Even though it came into existence only in 1953, it was before a part of Madras. Whenever an application is made, that application has been straddled—I use this word deliberately—by so many conditions. So many people come into the picture and so many intermediaries have got to endorse it, with the result that the very object, the *bona fide* object of helping industries which are sought to be set up in the cottage and small sectors, will not be served, however *bona fide* the application may be.

So when this House is passing a Bill of this character, there must be an assurance given to the House by the Minister that the Government of India will not just pass a law and put it on the Statute book and allow the State Financial Corporations to function as they please. In other words, some sort of mechanism should be available whereby (a) the Reserve Bank—I know there are provisions to this effect; but, to my mind, they are not adequate—(b) the Government of India—I know there are provisions about it here also, but I am prepared to say that they are not adequate—and, more than everything else, (c) this Parliament are able to have access to adequate information as to the manner in which the State Financial Corporations are functioning.

Finally, I say, if it is the objective of the Government of India—I am sure that in regard to this objective there is not going to be one dissenting voice in this entire House—to help small scale industries, for God's sake, make it a proposition which is within their means. Do not become Kabuli moneylenders and let these Financial Corporations charge 5½ per cent. to 7 per cent. interest. I have done.

2 P.M.

Shri V. B. Gandhi (Bombay City—North): Mr. Speaker, Sir, this is a Bill, which deserves the whole-hearted support of the House. This Bill provides for things which have been necessary, things without which the State Financial Corporations could not be expected to function to their full capacity. Now, we must consider this Bill against the background of our problem: the problem of finance for industries, the problem of the supply of credit for industries. In other countries a great deal has been done, but in our country this question of supply of finance, supply of credit for industries has been woefully neglected. Now, finance for industries, or credit for industries, can be made available through appropriate financial institutions, because it is these institutions which rely not only on their own paid up capital, their own resources, but they have the capacity to mobilise the resources of the community and make them available for industrial concerns which need such finance. This is a very necessary part in the structure of financial credit in a country.

We in this country took our first step in 1948 when we established the Industrial Finance Corporation. This we followed up shortly by two other very important and very appropriate institutions to help industrial development. One was the NIDCO, the National Industrial Development Corporation and the other was the Industrial Credit and Investment Corporation. So far as these three institutions go, and so far as they are designed to serve the needs of large scale industries, they are all for the good. Even with these three institutions, there is still a gap left in our structure of supply of credit, supply of finance for industries and particularly that portion of our industrial sector, that portion made up of small scale and medium scale industries still remains without any finance or any credit being made available to them. This gap it was intended

[Shri V. B. Gandhi]

would be filled up by the State Financial Corporations.

As I said, these corporations and similar financial institutions mobilise the resources of the community. Now, look here. Here the present State Financial Corporations have paid up resources of about Rs. 10 crores. We might note particularly that out of the Rs. 10 crores something like Rs. 3.72 crores of the subscribed capital came from scheduled banks and other institutional investors. We know very well that normally the scheduled banks and other institutional investors that made this capital available are not expected to finance industries on their own. Usually they do not. But by securing their capital from these scheduled banks and other investors to the extent of Rs. 3.72 crores these State Financial Corporations in a sense have mobilised a part of the resources which would otherwise not have been available to industry. Now that is not all. Their present paid up capital as I said is about Rs. 10 crores. But these State Financial Corporations are empowered to sell bonds, debentures, to give guarantees, to underwrite issues to industrial concerns. By all these means under the existing Act they can increase their resources to five times their paid up capital. So, here they have their paid up capital of Rs. 10 crores; they have this other capacity already provided in the principal Act, in the original Act to increase their capital up to 500 per cent., that is Rs. 50 crores. That is not all. They can also take fixed deposits, long-term, up to the extent of their paid up capital; that is another Rs. 10 crores. In other words, these institutions have this capacity of mobilising these resources. Their own resources are Rs. 10 crores, but they can have additional resources when, of course, they are going full blast of Rs. 60 crores. Now all this is based on their paid up capital today which is Rs. 10 crores. But their authorised capital is Rs. 25 crores and I

am quite sure when the need arises this paid up capital will not remain where it is but can certainly be taken up to its full limit of Rs. 25 crores. Thus the State Financial Corporations can have additional resources of Rs. 150 crores. That is the measure of usefulness, that is the measure of strength, the key to the usefulness of these institutions.

Something has been said about the showing that these institutions have made in the last few years. I really do not think we can fairly give judgment on their showing in the short period of time during which they have been in existence. The seniormost one, the earliest, came into existence only three years ago on the 1st of February 1953 and the youngest I think is hardly six months old. Financial institutions are not built in a day. They take time and they would take more time in a country like ours where all the other relevant conditions that are necessary for quick development of such institutions have still to be built up. That is really the position. We would certainly have liked it very much if in this short space of time the institutions could have done better, but we should look to the other side of the picture. If their administrative expenses had been rather high in the beginning we can look to the fact that these expenses have been progressively going down year after year and that is important. If the available funds of these financial institutions which have so far been utilised in loans and advances make up a percentage of only 27 on the average we can still look to individual instances of some of these corporations where the percentage of funds utilised for loans goes up to as high as 59.15 per cent. and 60.70 per cent. These are, I think, not very bad showings. I see here that some of these corporations were very liberal in sanctioning loans, that in one case almost 71 per cent. of the loans applied for were sanctioned. In another case 79 per cent. of the loans

applied for were sanctioned. Now I think given some time and given some encouragement and also if we remove some of the impediments which are there and which are real for these corporations, as we propose to do in this Bill, much more can be legitimately expected from these corporations. Now, why have these corporations not done as well as Members in this House would have liked? On the one side, there have been certain deficiencies in the provisions of the principal Act, and, on the other hand, there have been certain shortcomings in the kind of structures we have in our small-scale and medium-scale industries. After all, these industrial concerns, the medium and small-scale concerns, before they can be eligible for a loan, have to possess a certain form of organisation, some kind of appropriate structure of their own. This will need some education; this will need some encouragement. Of course, the Financial Corporations, when they are advancing help are not advancing it as charity but as business finance. Therefore, the concerns which expect help from these corporations have to prove their creditworthiness and all these things, as I have said, are going to take some time.

Let us see how far the Bill before this House tries to remove some of the impediments in the way of these Financial Corporations and how far this Bill makes it possible to expect a much more useful life for these Corporations. Let us begin with clause 2. The whole trend of all the clauses in this Bill is towards widening the scope of the Financial Corporations' power to grant loans. The whole trend is towards bringing more and more of industrial concerns within the definition of concerns eligible for loans. That is really what the Bill is seeking to do.

[MR. DEPUTY-SPEAKER *in the Chair*]

2-12 P.M.

In clause 2, for instance, we are widening the scope of the definition

of 'processing'. This one provision alone will enable a large number of concerns to become eligible for loans, who, previously, or in the absence of this new definition, were not entitled to any loans from the Corporation.

Then, in clause 4 and clause 24, we are providing for Joint Corporations. What does that mean? In cases where the Joint Corporation is going to be brought into existence, what is going to happen? A territory which, formerly, could not afford to have a Corporation of its own but would like to join hands with a neighbouring territory can make industrial finance available within its own territory because of this joint effort of two or more territories. In other words, more industrial concerns will be brought within the purview of the operation of the industrial finance made available by these Corporations.

Then, again, the Corporations are going to be allowed to take up agency functions. That, in a way, will bring these Corporations in close touch, into some kind of intimate contact with industrial concerns which have been borrowing from other bigger institutions like the Industrial Finance Corporation or the I.C.I.C. That is one thing good so far as the Corporations are concerned. In clause 12(b), we are doing something really very great for these Corporations because these Corporations were formerly precluded from granting financial accommodation to industrial concerns unless these concerns were in a position to give some kind of security in the shape mortgage or some sort of hypothecation of approved kinds of assets.

We know very well that in our country if the small-scale industries are really going to be helped in the manner they deserve to be helped, then to insist in each and every case that certain types of acceptable securities alone will entitle them for financial assistance, I think, would make our effort almost without any meaning. Under this provision, the Corporations are going to be allowed

[Shri V. B. Gandhi]

to accept the guarantee of the State Government or guarantee of a Scheduled Bank or guarantee of the State Co-operative Bank. Thus, we are immediately throwing open the facilities of these Financial Corporations, the assistance of these Financial Corporations to a very much larger number of industrial concerns which, of course, will be selected individually by the State Governments or by the Scheduled Banks or by the State Co-operative Banks who will be willing to stand guarantee.

Through all these new provisions, I think, we are providing for greater usefulness of these State Financial Corporations and, perhaps, in a few years from today, I hope, when this House has another chance to consider the functioning of these Corporations, most Members will have a more satisfactory record of these Corporations to consider.

Finally, before I close, I just have one or two comments to make. In clause 17, which provides for a new section 32D, we deal with compensation for termination of contract of managing agents and managing directors etc. Here the right of the managing agents and directors for any kind of compensation is taken away. I really do not know whether it is quite a wise step to take. I will tell you why. I would have preferred if Government had reserved some kind of discretion to itself in this matter rather than definitely barring any consideration of compensation. It is quite possible that managing agents and some managing directors may find that their companies have come to grief not for any fault of their own but, perhaps, by sheer misfortune. It is quite conceivable. In Industrial concerns, models might become obsolete, substitutes might come in the market and something might happen and for no fault of these managing agents the companies might come to grief. Supposing the Government takes over these concerns and these men are

turned out without any consideration of compensation, I do not know, if that is what is really intended. If Government had reserved some discretion to itself, probably there was some way out.

There is another reason, and a very important reason. These men, who are in control of these concerns and who are receiving assistance from the State Financial Corporations know well in advance, before anybody else does, how their affairs are going and if they can see that in spite of all that they can do, these affairs are going to end in a disaster and if they know from this provision that they will be entitled to no compensation, then it will be only human to expect that they will so arrange the affairs there that by the time the Corporation takes over the concern, there will be precious little left for the Corporation to take over. If, instead of that, some hope is provided or is left for those in control that if their *bona fides* are proved, some consideration will be given to them, I thought that perhaps would have meant we were dealing with the problem in a little more rational way.

Finally, I support the amendment moved by the hon. Minister to clause 21, about the inspection by the Reserve Bank. The original provision in the Bill left the matter to the initiative of the Central Government, whereas the amendment as proposed by the hon. Minister now gives the initiative to the Reserve Bank, and that is as it should be. Because it will be the Reserve Bank who will be in a position quickly to understand which way things are going, and the Reserve Bank should be placed in a position of taking quick action. Therefore, I support that amendment.

Shri M. S. Gurupadaswamy: The State Financial Corporations Act was passed in the year 1951, and the Corporations began to be born after nearly two years of the passing of

the Act. That is an unpardonable delay on the part of the powers that be. The first Corporation actually came into existence after 1½ years of the passing of the Act. Even now, after nearly five years of the passing of the Act, we have not been able to form Corporations in all the existing States. There are still States left without any Financial Corporations. So, the delay has been very long, unpardonably long, and the Minister, in his preliminary remarks, has not been able to give us any satisfactory justification for this long and dangerous delay.

The Minister said in his opening remarks that the Corporations are in an infant stage because they have been started only recently. I agree that the Corporations have not lived for long and their tenure of life has been very very small. But may I ask whether within the time available to these Corporations, they have been discharging their duties properly, efficiently and satisfactorily? I feel that if you look at the summary of the working of these Corporations supplied to us, you will appreciate that the Corporations have been condemned to infantile paralysis because of intolerable inertia on the part of Government in giving proper and effective guidance to these Corporations. There are also other reasons why the Corporations have failed miserably to achieve the objectives for which they were started. For instance, take the question of obligations imposed on these Corporations. There are four main obligations which have been thought of: firstly, the Corporations have to underwrite the issue of shares, bonds or debentures by industrial concerns on commission basis; secondly, they have to guarantee loans raised by industrial concerns repayable within a period of 20 years on commission basis; thirdly, they have to invest in industrial stocks, loans and debentures of companies in consequence of underwriting liabilities subject to their disposal within seven years; and fourthly, they have to grant loans

and advances or subscribe to the debentures of industrial concerns repayable within a period not exceeding 20 years from the date on which they are granted or subscribed. Except one obligation, the Corporations have failed to carry out other obligations. They have been concentrating since the start only on loan operations, and till today I find in the whole summary given to us not even one single instance where any single Corporation has come forward to underwrite the issue of shares, bonds or debentures. They have not in any single instance guaranteed the loans raised by industrial concerns outside the Industrial Finance Corporation. Though the objectives for which the Corporations are started are very many, as many as four, the activities of the Corporations have been confined to one single purpose and for a very narrow purpose. Very shortly I will deal with the question whether even that single purpose had been carried out properly or not. You will see therefore that the Corporations have not made a good start; and they have not been able to meet all the requirements which are expected of them. I say, that the Corporations were condemned to infantile paralysis because of the inaction of the Government or by sheer inertia of the Government.

Now, we must know on what grounds the loans are given to the various industries. Here are listed various grounds on which loans are allotted. I may read the grounds and they are very brief. The loans are allotted on the basis of (a) financial soundness of the concern and its prospects of increasing its output and margin of profit, (b) technical soundness of the scheme, (c) adequacy of securities in the form of tangible assets, (d) adequacy of the extent of loans asked for, (e) satisfactory title to the property to be mortgaged in respect of its marketability, (f) creditworthiness of the operating concern and available guarantee of the managing agents, and (g) importance of the industry for the national

[Shri M. S. Gurupadaswamy]

economy of the State. You will immediately appreciate on going through these conditions that they are overlapping and that they are, in a way, responsible for the delay in the loan transactions. I can understand that the corporations should enquire into the financial soundness of the company or the industrial concern before granting loans; it should also get adequate security. When these two are there, why bring creditworthiness again? If you are satisfied with the financial soundness of an industrial concern, where is the question of credit-worthiness? Is it not obvious? Again, if it is financially sound and has got prospects of increasing its output, why are you demanding tangible assets? Without them, how can there be any prosperity for a concern? So, these conditions have been so framed that they are not only overlapping but they place insurmountable obstacles in the way of an industrial unit for getting loans. An applicant has to satisfy so many absurdly complicating conditions.

The last condition is really strange. The corporation should consider whether the industry is of national importance or not. We are dealing with small-scale and medium-sized industries; they are all, in a general way, of national importance. We are not dealing with these industries from a narrow point of view in the sense whether certain industries are basic. Take, for instance, the iron and steel industry, or the coal industry. They are key industries of national importance. How can you bring in that condition and apply it to these small-scale industries? Either you accept the proposition that all industries are important or you assume that certain industries are basic and are very important for the nation and that the rest should be considered on a different footing. On the ground that a particular industry is not of national importance, an application may straightaway be rejected. The procedure has imposed so many

severe restrictions on the applicants and they are not able to take advantage of the loan facilities offered. Thus, the purpose of the financial corporations is not served.

Many hon. Members have drawn the attention of the House to various other matters. But, I feel that the most fundamental thing is the long and tardy procedure and the very leisurely way in which things are being done by these corporations.

There is one other important point. What is a small-scale industry? No Government, either at the Centre or in the States, has defined it in precise terms. It is only in Bombay that they have defined it roughly, mainly on three considerations: namely, the capital resources of the concern, the number of people employed and the amount of power used—whether it is electric power or other power. These are the basic criteria on the basis of which a decision is taken as to whether an industry is small-scale or medium-scale. In no other State have any such criteria been laid down. This Bill deals with such industries but you do not know what a small-scale industry is or what a medium-sized industry is. We are going in a blind alley. Many difficulties have arisen on account of this fact. Without a proper definition of these things, it is not possible to have a clear notion of the jurisdiction of the respective corporations.

I know a particular instance where an industrial concern wanted a loan from the State financial corporation. The reply came that it should apply to the Industrial Finance Corporation. They showed their hands towards Delhi. The ground given was that it was a large-scale industry. Unless you have got a clear, categorical and precise definition of the small, medium and large-scale industries, it is not possible for the corporations to transact business quickly.

An hon. Member spoke about the high rate of interest. I am in agreement with him. The interest charged by these corporations is not uniform or equitable. The rate is very high; it varies from five to seven per cent. The banks charge interest on loans at 3-4 per cent. Even the national loans are raised at four per cent. Then, why should the loans given to private industries be charged such a high rate of interest? How do you expect the industrialists to put up with all your formalities which take a very long time and at the same time this tremendous amount of interest is charged? Most of the industrialists do not come to these corporations for assistance for the simple reason that the rate of interest is high and there is also a great delay.

Then, while granting loans, there is always discrimination and favouritism. There have been too many doubtful and bad debts. What is the reason? No reason is given in this report. It is because very bad and doubtful people are getting loans. Loans are granted on political considerations, as a result of political pressure brought on the corporation members. There is political exploitation of this financial responsibility. I may say further that these corporations are completely subject to political pressure from certain quarters. That is why, they have failed in their work.

Lastly, I may say that the ratio of administrative expenses to income and paid-up capital is rather alarmingly large. The average ratio in respect of Saurashtra and Travancore-Cochin is 15 per cent and 17 per cent respectively. In the case of Hyderabad and West Bengal it is about 28 per cent and 22 per cent respectively. In the case of Bombay and Punjab it is 33 per cent and 37 per cent respectively. If you look at these ratios, it looks as though the main work of these Financial Corporations is to meet the administrative expenses, their own expenses, and not to meet

the requirements of the industry. I do not think the Financial Corporations have been established for the purpose of financing themselves or meeting their own administrative requirements. It is not for that purpose that they have been established. But, unfortunately, the figures would leave the impression on the minds of Members that these Financial Corporations have not done anything except to meet their own day to day expenses. It is very unfortunate. Shri Bansal was good enough to give us certain figures of foreign countries where this administrative expense is very very small. Even in the Industrial Finance Corporation administrative expenditure is comparatively small. I do not know why such huge expenses are allowed in respect of the State Financial Corporations. I do not know why a limit has not been imposed by the State Governments, by the Reserve Bank.

Finally, Sir, I may say that there is no co-ordination between the Centre and States in respect of these financial institutions. Today the Congress Party is running all the State Governments. There is only one party, and it is normally expected of that party, which is manning all the State Governments, to have better co-ordination in respect of these institutions. I feel, if steps had been taken by the Government at the centre and the Governments at the State level, there would have been better co-ordination, better functioning and better integration of the policies and there would have been no slackness on the part of the State Financial Corporations in respect of the various transactions.

Shri M. K. Moitra (Calcutta—North-West): Mr. Deputy-Speaker, Sir, this Bill is an enabling Bill. The State Financial Corporations (Amendment) Bill proposes mainly to establish joint State Financial Corporations by agreement among several States. It also proposes to lay down certain rules for management of the concerns the corporations will take over. There is also a provision in this

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Bill to empower the Reserve Bank of India to arrange for inspection of the working of the corporations.

The hon. Shri V. B. Gandhi, in the course of his speech, has been pleased to say that the purpose of such Financial Corporations is to mobilise the wealth of the community and in that respect these corporations will one day succeed. The purpose of these corporations may be to mobilise the wealth of the society, but the success of these corporations will be measured by how far this mobilised wealth of the community can be utilised for assisting the growth of small and medium sized industries. From that point of view I must say that the working of the State Financial Corporations in different States gives a very sorry picture.

A review of up-to-date working of these corporations cannot but create a feeling of disappointment about the activities of these corporations. The corporations have so far been able to give no significant help to small and medium sized industries. Not only the aggregate value of applications for loans made by individuals concerns is small but there is a visible gap between the total loans applied for and the loans actually sanctioned. Out of 514 applications received by the 5 corporations up to 31st March, 1955, only 114, or 22.17 per cent, have been fully sanctioned; 130 are pending; 191 applications have been rejected or withdrawn and 78 have been referred to other agencies. The picture of 1955-56 is also not very encouraging. In 1955-56 in Travancore-Cochin, there were 26 applications asking for loans to the amount of Rs. 54.95 lakhs, but loans to the amount of Rs. 23.6 lakhs have only been sanctioned. That is the case in Hyderabad also. In Hyderabad State there were 23 applications in year 1955-56 asking for Rs. 31.10 lakhs but only 9 applications to the amount of Rs. 4.58 lakhs have been sanctioned. In Bombay also the same

story is repeated. In Bombay there were 56 applications for loans and only 29 have been sanctioned, the amount of loan sanctioned being Rs. 60.456 lakhs. In Punjab there were 56 applications in 1955-56 asking for Rs. 70.17 lakhs. Out of those 56 applications only 33 applications for Rs. 39.57 lakhs have been sanctioned. In West Bengal it is really discouraging. There were 67 applications asking for Rs. 170.89 lakhs of loan and only 9 applications have been sanctioned, granting a loan of Rs. 28.77 lakhs.

This is not all. The purpose for which loans are to be sanctioned under this Act is to help the medium and small-scale industries. Sir, in West Bengal textile mills, glass works, pottery works, which by no stretch of imagination can be brought under the category of small or medium sized industries, have got loans from these corporations. It may be said that there were considerations other than financial which weighed with the management of these corporations and, as my preceding speaker has pointed out, political considerations very often weigh with the authorities concerned in the sanction of loans.

The most important cause for rejection of applications for loan has been the unsatisfactory nature of securities offered. I must say here that, especially, the small-scale industries are always under-capitalised. If you rigidly apply the laws that banks apply in having securities before granting loans, you cannot possibly assist the small-scale industries. Most of the small-scale industries and many of the medium sized industries have neither their own land nor their own building, and this is the sort of securities that these corporations demand before granting any loan.

From the point of view of assistance, medium and not small sized concerns have been the major recipients of these loans. As regards

period for which loans are sanctioned the medium sized industries are more fortunate.

If we examine the working of these Financial Corporations during the last few years, we will find that small-scale industries which are always under capitalised have not been able to secure loans from these Corporations. The medium scale industries have been more favoured in this connection.

I am going to give certain figures. In Hyderabad, out of 20 recipients of loans, nine are only small-sized industries. They received only 7.67 per cent of the total loans sanctioned. In Saurashtra also, three out of 27 industries that could secure loans from these Corporations were small-scale industries, and they received only 4.8 per cent of the total loans sanctioned. In Bombay, the same story is repeated. 70 concerns received the loans, and out of these 70, only 23 are small-scale industries and they received only 11.03 per cent of the total loans sanctioned. Thus, you will see that the small-scale industries which require assistance from the Government, and which cannot arrange for credit in the market, have not been favoured with loans in a just manner. Their cases have frequently been neglected.

The failure to assist the small units are due to the defects inherent in the constitution of these Corporations. The Corporations have not been constituted in a manner so as to be able to render financial assistance to small units. Loans and advances are not given in the nature of cash credit arrangements. The securities do not include stocks also, but only tangible assets. Shri V. B. Gandhi has just mentioned that in this Bill, it has been proposed that if either the Government or some other associations give guarantee for the industries asking for loans, then loans will be sanctioned. But that is another way of bringing in political pressure in the matter of granting loans. The persons will have to go to those peo-

ple who carry influence with the management of these Corporations and thus, the object of granting financial assistance to the small-scale industries, which require it most, will be frustrated.

From the point of view of meeting long-term financial needs of the small and medium-sized concerns, the activity of the State Financial Corporations has so far been a record of failure. The small and medium industries, especially the former, are not in a position, financially, to avail themselves of the facility rendered in the form of long-term mortgage loans at a rate of interest higher than what they could afford to pay. This high rate of interest has been strongly commented upon by Dr. Lanka Sundaram and also by the previous speaker.

One fails to understand how the Government, which wants the rapid industrialisation of the country, will charge an interest which is charged by the trading concerns like the mortgage banks. Where then is the help? That is what puzzles me. To be of any practical help, the lending power of the Corporations should be widened, and it should be wide enough like the Industries and Finance Corporation of England, whose lending method has been prescribed before-hand and which extends its financial assistance in the form of suitable to the borrowing concerns. If you look to such concerns in England, you will see that they have not asked for credit for the money they will lend, but they have always looked to the suitability of the concern—whether the concern which asks for help is suitable for rendering such help. Even the question of giving security has been dispensed with in some cases in England. Not only in England but in Indonesia also, a country which is far smaller than India and which enjoys a far less reputation in international field and in international bodies, they have prescribed easy rules for assisting the small industries. But, in India, we

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find that the State Financial Corporations have not even framed easy rules for helping and really assisting the small-scale industries.

I have shown that the small-scale industries have not been favoured with loans. Their applications have been rejected and even the terms on which the loans were granted are far less favourable to those of the medium-scale industries.

Lastly, I shall refer to one more provision in the Bill, namely, the provisions for inspection. I have referred to certain mismanagements in the State Financial Corporations. The working of those Corporations requires inspection. I am glad that the Government have proposed such an inspection. But what is the sort of inspection they have proposed? They have proposed that if the Central Government directs, then, the Reserve Bank of India will inspect the working of any Financial Corporation. Even the Reserve Bank of India has not been given the right to inspect annually the working of the Financial Corporations. In this year of grace, I wonder why the Reserve Bank of India has not been given the right to inspect annually the State Financial Corporations, against which there have been so many complaints. I will go further and say that the inspection should not only be made by the Reserve Bank of India but it should be done by the Comptroller and Auditor-General. Instead of making such a provision, the right of inspection has been reserved to the sweet will of the Central Government. Only if the Central Government likes, it will ask the Reserve Bank of India to inspect the working of the State Financial Corporations.

I would request the hon. Minister to see that the Corporations are really able to function, and function in such a way that the small-scale industries and the medium-scale industries may receive real assistance from the Corporations.

Shri A. C. Guha: I think most of the Members have concentrated their

attention more on the working of these Corporations than on the provisions of this Bill. This is an occasion on which the Parliament can make a sort of review of the working of the Corporations formed under a statute passed by Parliament. So, I would welcome this discussion.

In my introductory speech, I admitted that the Government were not satisfied with the working of these Corporations during the last two or three years, and this is why the Reserve Bank of India took up this matter and initiated a sort of discussion with the representatives of all the State Financial Corporations. On the basis of the recommendations arising out of that discussion we have come before this House for amending the Act.

3 P.M.

In my opening speech, I had stated that the failure of the State Corporations to fulfil effectively the charge entrusted to them was due to some extent to the rigidity and rigorous character of the provisions of the Act and to some extent to the very structure, technique and nature of the industrial concerns which can apply or may be entitled to apply for the loans. I hope that at least Shri Bansal would know the position of the small-scale and medium-scale cottage industries; they can hardly be called to be in the organised sector of the industry. It is not always possible for them to get the necessary security or guarantee for loans and I hope he will not suggest that the State Financial Corporations should lend money without any security whatsoever, taking the risk of losing the entire amount. There have been criticisms from two opposite directions: One is that the State Corporations have not been able to earn much and the statutory obligation of giving some dividend has to be fulfilled only with the substantial help of the State Government concerned. At the same time, criticism has been made, particularly by Dr. Lanka Sundaram, that most of these loans

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would be written off as bad debts. I think we can only take a sort of middle-path, taking some amount of calculated risk and also paying proper attention to see that a fair amount of the money lent out may come back with interest, so that the statutory obligation of giving dividends may not have to be met by the State Governments, but may be met by the earnings of these Corporations. If the Corporations are to earn some profit, naturally they will see that investment is made with some amount of security for the repayment of the principal and also interest. I hope the House will realise this aspect, namely, that the Corporation cannot function just as a banker with more or less 100 per cent. security for the investment, nor at the same time they can go on recklessly lending out money to any concern coming to it for loan. It has to chalk out a middle-path, taking some amount of calculated risk and at the same time taking care to see that certain income also may be earned.

The other day as well as today, some Members raised the point of the annual reports being placed on the Table or supplied to them. If Members look at clause 38(b) of the Act, they will find that the State Financial Corporations are to submit their reports to the Reserve Bank and also to their State legislatures. The annual report is also published in the gazette of the State concerned and the gazettes of all the different States are available in the Parliament Library. So, in a technical sense I can say that the reports have been laid in the library. But, I do not like to take that point of view. I know it would not be possible for Members to search out the reports from the various State gazettes for two or three years. For the future, I shall see that the reports are placed in the Parliament Library. At the same time, I should like to point out that the Act passed by this House has provided for the obligation of these Corporations to present the reports to the State Legislature concerned

and not to the Parliament. That is the provision made by this Parliament. So, if any lapse has been committed, I do not think a poor Minister like myself should be taken to task for that lapse on the part of the Parliament. Anyhow, for the future, I shall see that the annual reports are made available in the library.

Mr. Bansal and Mr. Lanka Sundaram have referred to expense ratio. Mr. Bansal has tried to calculate it on the basis of the investment. That point of view may be taken if one looks to the performance of these Corporations. But, I think from the point of view of commercial accounting, it would be more appropriate to consider the expense ratio with the income earned. Let hon. Members look at page 14 of the report. Surely, for the first one or two years nobody will expect that the profit will be anything considerable, because the investment of money might have only just started and no interest can be collected. We can get some result only after the third or fourth year. In most of these cases, the administrative expense ratio has been coming down considerably. For the last three years, the figures are as follows: Punjab 62 per cent. for the first year, 37 per cent. for the second year and 31 per cent. for the third year; Saurashtra—40 per cent., 17 per cent. and 16 per cent.; Bombay—63 per cent., 33 per cent. and 23 per cent. Even in the case of West Bengal, in which Mr. Basu is very much interested, the expense ratio was 46 per cent. for the first year and 28 per cent. for the second year. Thus it will be seen that the expense ratio has been coming down considerably year after year.

Referring to clause 12 of the Bill, Dr. Lanka Sundaram has said that cottage industries will not get anything. He was almost sure about it though it is provided, not exactly in the Bill, but in the Statement of Objects and Reasons, that small-scale and cottage industries may also be eligible for getting loans from these Corporations. In this connection, he mentioned the prevailing rate of

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interest. Generally, the rate of interest is between 6 and 7 per cent. That, he has termed as *kabuli* rate. If he had referred to the bank rate or the rate at which organised industry can get loan from the commercial banks, he would not have used this appellation to this rate of interest. In this connection, I would also like to draw the attention of the House to the rate of interest prevailing for agricultural credit. The Reserve Bank has been giving credit to co-operative banks at a very much subsidised rate, I think 1½ per cent. But, still, it has not been possible for the co-operatives to give loans to individual cultivators at less than 6½ per cent. In some cases, even now, in spite of all our attempts to reduce the rate of interest and repeated reminders and circulars, I think the rate of interest prevailing is near about 10 per cent. Even at that rate, I think, the cultivators can afford to repay the principal and pay the interest also.

In the case of these corporations, Dr. Lanka Sundaram said that 50 to 60 per cent. of the loans would be written off as bad debts. I am not aware of his source of this alarmist view. From whatever information we have been able to gather, I think there has hardly been any default in the repayment of the instalment of principal or the payment of interest. I would not say there has not been any default at all; but it is not in a measure to cause concern, or say that 50 per cent. or 60 per cent. would be bad debt. Rather I would say that most of his money would come back to the corporations with interest.

Shri V. B. Gandhi mentioned about the provision in clause 17,—the new section 32B. I think he was referring to sub-section (b) of section 32B. He has taken objection to the rigid wording of that clause by which any previous contract of the managing agent with the industrial concern which may be taken over by the State Financial Corporation would

automatically terminate. His apprehension is that this may mean hardship to some of the managing agents who may not have behaved in any reprehensible manner or might not have been guilty of any improper acts. He thought that there should have been some discretion left with the Government for such cases. That clause is just a word for word reproduction of section 30B clause (b) of the Industrial Finance Corporation Act. This is a recent amendment put in in the Industrial Finance Corporation Act only, I think, a year ago. Moreover, this provision does not put any ban on the Government to make a new arrangement with that managing agent who might not have been guilty of any improper act, but might have been a victim of circumstances for the failure of that concern and in meeting the obligations of the State Financial Corporations. In such cases, the Government may take into consideration the performance of that managing agency and there may be some future arrangement with them. There is no ban on such future arrangement. But, I think legally it is proper that automatically all the financial obligations with the managing agent of the industrial concern should end as soon as the State Financial Corporation takes over that concern.

Something has also been said about creditworthiness. I think Shri M. S. Gurupadaswamy, in his usual vigorous manner, has tried to prove that this criterion is absolutely wrong and rather wicked. I have mentioned previously that unless these corporations also take some care of their investments, it may be that all these investments may go wrong. Some creditworthiness of the loanee is surely to be enquired into. He has drawn attention to the seven conditions mentioned in page 19 of the report circulated to some Members and placed in the Library. I can only say that these are not any statutory things. This is only a matter of practice and convention. When the entire working of these corporations

will be reviewed by the Reserve Bank in consultation with these corporations, these conditions may also be changed. I am sure the Reserve Bank and these corporations will see whether there is anything unnecessarily rigorous or overlapping in these conditions.

Shri M. S. Gurupadaswamy also said that there has been no definition of small-scale and cottage industries and asked how these corporations would be able to help them. In the Bill or in the original Act there is no mention of small-scale or cottage industries. There is no statutory obligation on these corporations to be very definite what a small-scale, or medium-scale or cottage industry is. It is only for the guidance of these corporations, it is said that they will cater to small-scale concerns and would not give any loan of more than Rs. 10 lakhs. They could go down even to Rs. 10,000 as loan to an industrial concern.

Shri K. K. Basu: That has been raised in many places.

Shri A. C. Guha: I would invite the attention of Shri M. S. Gurupadaswamy, though he is not present here, to page 450 of the Planning Commission's report. There he will find some idea about small-scale industries and medium-scale industries. I need not read out these lines. I think he can easily refer to that page and get an idea. I think the State Financial Corporations would work according to that definition. Though I can't say that it is a strict definition, there is a category of industries which may be called medium-scale or small-scale or cottage industries.

I think Shri M. K. Moitra said something about investment in Bengal, about textiles, potteries, etc. His charge is that—"by no stretch of imagination" could these be called medium-scale industries. I think, if he had seen some of these potteries in Bengal, he would be convinced that some of them belonged not even to medium-scale or small-scale industries, but to cottage industries. I know some of these potteries which

are surely small-scale industries. The loans given to them may be a few thousand rupees. Regarding textile mills also, I think he would know that these textile mills are mostly for spinning and the total capital invested in these textile mills would be about a few lakhs of rupees.

Shri M. K. Moitra: I rise to give this information to the hon. Minister that when I referred to potteries, textile mills and glass works getting loans from these financial corporations, I referred only to those companies whose authorised share capital is over Rs. 20 lakhs.

Shri A. C. Guha: I think some of the textile mills are going to be set up in rehabilitation areas for providing employment to refugees. Some may be in other areas also, but they are almost all, as far as my knowledge goes, not weaving sections, only spinning sections.

Shri K. K. Basu: Only those mills are brought under this?

Shri A. C. Guha: The new textile mills that are being set up in Bengal are mostly if not all for spinning. Some expansion has been made in some of the old textile mills. They are also, as far as I know, for spinning sections.

Shri K. K. Basu: What about these loans?

Shri A. C. Guha: But they have taken only a few lakhs of rupees, two or three lakhs at the most. They must be all medium-scale industries.

Shri K. K. Basu: Not always.

Shri A. C. Guha: I think I have more or less covered all the points.

Shri M. K. Moitra: What about inspection?

Shri A. C. Guha: There is another point about uniformity in the rate of interest. Shri Bansal is not here.

Shri Bansal: I am here.

Shri A. C. Guha: At least Shri Bansal would surely not say that uniformity in the rate of interest is possible. Interest rate would surely vary from area to area and according to the conditions prevailing in

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each area and may also vary from industry to industry. But we are anxious that some sort of uniformity in the working of these corporations should be effected and that is why the Reserve Bank is brought into the picture to inspect the working of these corporations. I can assure Shri Moitra that the inspection of these corporations will not be left to be done in a casual manner by the Reserve Bank but will be an annual feature. Even now these corporations have agreed, though there is no provision in the Act, to have the inspection by the Reserve Bank annually and the Reserve Bank is doing that. But we thought it proper to put it in the statute. So, we have put it here and this will be done regularly by the Reserve Bank.

Mr. Deputy-Speaker: The question is:

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

The motion was adopted.

Clauses 2 to 16

Mr. Deputy-Speaker: So far as clauses 2 to 16 are concerned, there are no amendments I suppose. One amendment has been passed on just now this morning to clause 7 by Shri Barman. He is not here.

Shri K. K. Basu: Notice has been given?

Mr. Deputy-Speaker: Notice has been given, but I am not waiving notice because it has been received just now, unless the Government are prepared to accept it, but he is not present himself. Therefore the question does not arise.

After clauses 2 to 16 we can take up those clauses to which amendments have been tabled. The question is...

Shri K. K. Basu: Can I speak?

Mr. Deputy-Speaker: I thought the hon. Member had amendments to clauses 17 and 20.

Shri K. K. Basu: That is true, but as I had no opportunity to speak in the general discussion, I may cover some ground on these clauses. Much has already been said in reply to the general discussion by the hon. Minister just now. Though this is a piece of legislation which seeks to improve matters by extending the scope of the definition, we have not been told either in the hundred-page document that has been circulated to us or in the Minister's introductory speech or reply the extent to which the organisational set up of these corporations or the rigidity of their rules has come in the way of further development of these corporations. If you read the report you will see that even out of the meagre sum of Rs. 5 crores, if I may say so, granted from the resources of these financial corporations, only about 50 per cent. has been utilised by the persons who have taken loans which have been granted after going through much formality and screening as the Minister himself has said. We would like to know why the other 50 per cent. could not be utilised, because according to the Planning Commission's Report it was expected that during the first Five Year Plan Rs. 16 to Rs. 18 crores would be given as loan to private industry. If you scan the figures you will find that the national financial corporation, meaning the bigger one, has given about Rs. 12 crores and out of the rest which was to be supplied by the State financial corporations, hardly Rs. 5 crores have been issued, and of that only 50 per cent. has been utilised.

Even in a State like Bihar, 90 per cent. of the resources of the State Financial Corporation has been invested in Government securities. In Bengal they have invested 53 per cent. of the money in them. Even in a State like Saurashtra, in which State there are a number of enterprising gentlemen of whom we hear so much, 67 per cent. has been invested in Government securities. Worst of all, I take my own State of

West Bengal which has a large concentration of not only big industries but also small and medium-size enterprises. There only 22 per cent. had been advanced of the total resources available for the issuing of loans or debentures of industries which were left unsubscribed. At the same time, 37.2 per cent. has been invested in Government securities and 40 per cent. has been invested with banks. Unless it is a fixed deposit or a time liability, you hardly get interest on such deposits and even if you get, it does not exceed one per cent. Recently in West Bengal, especially round about Calcutta, a large number of small engineering industries has been started as you might yourself be knowing particularly because you are interested in these things. There it has been proved that 88 per cent. of the assets belongs to equity capital, in some cases even 93 per cent. and only 7 to 8 per cent. is loan capital. In most of these small-scale industries nearly 87 per cent. of the loans is supplied by the private money-lenders and today we know fully well in what way the private money-lenders charge interest. In medium-size industries also, nearly 72 per cent. is supplied by the private money-lenders and only seven to eight per cent. by the banks or institutional financiers. I am worried because though these State financial corporations have been established, in most of the States, and even in the case of States like Bombay, Saurashtra and West Bengal, the major portion of the money is deposited with the bank and is not utilised for the purposes of the industries. If there is any rigidity in the rules, when you have come forward with an amending Bill, why not come forward with an amendment to alter the rules in such a way that the industries are served, because if you stick on to the theory that they must have tangible or real assets, many of the smaller concerns will not be able to get any benefit. As you may know, Sir, in the Punjab in places like Jullunder and Ambala a large number of cycle and sewing

factories has grown up which need capital. If you ask them that they must own a building or any such thing, they will hardly be able to provide that kind of security, though, otherwise, they may essentially be very sound financial enterprises. Therefore, I am rather worried about this particular matter.

Though I welcome the amendment which seeks to extend the scope of the definition of 'processing of goods', yet I am sorry to find that the Minister of Revenue and Defence Expenditure, either in his introductory speech or even in his reply, has not supplied us the facts as to the obstacles that stood in the way of further expanding the scope of these financial institutions. In my opinion, these finance corporations are very important institutions, because we are going to have a decentralised economy, and the small-scale and medium-scale industries are bound to play a very important role in the same. But we find that a major portion of the State's money is invested in the banks or in government securities. If Government wanted to invest these sums in government securities, then there was no point in having special institutions of this nature. I would urge the Minister to take these things into consideration and have a thorough enquiry into the matter and see whether we can improve the working of these financial institutions so as to give greater help for the development of small-scale and medium-sized industries. This is very necessary, because, in the Second Five Year Plan, we have allotted nearly Rs. 40 crores to be provided by these organisations for the development of the private sector.

I welcome the provision relating to the formation of joint finance corporations, because we find that there have been some difficulties felt in this regard by the smaller States and the Part C States. Owing to paucity of resources and so on, they were not strong enough financially to have corporations of their own. The amendment now proposed will enable them to overcome this difficulty by having

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joint finance corporations along with other States.

Then, I come to the provision which seeks to extend the scope of grant of loans even to cases where there is no real asset, on the condition that a guarantee is given by the State Government, a scheduled bank or a State co-operative bank. I do not know about the facts given by Shri M. K. Moitra and Shri M. S. Gurupadaswamy, that the State Government's guarantee may involve some sort of political pressure.

But that apart, what I am worried about is the rate of interest. The Minister has stated that it is not possible to have uniform rates throughout the country. When bank rates are uniform throughout India, why should we not insist on the interest rate being placed at a certain percentage above the bank rate?

Shri A. C. Guha: I do not think even the commercial banks charge the same rate throughout India. Nor do I think that even in the same State, uniform rates are charged for all parties.

Shri K. K. Basu: My whole point is this. They charge a different rate, depending on the credit-worthiness of the person concerned. The Minister is trying to justify different rates in the case of different State financial corporations on the same ground. But my point is that these concerns being State institutions, we can say that the rate of interest will be two or three per cent. above the bank rate. In regard to the steel plant which we are setting up with the collaboration of Great Britain, the interest charged is a certain percentage over the bank rate. I would urge that a similar thing could be provided for in this case also.

If we really mean to help the small-scale and medium-scale industries, then, obviously, we cannot have these high rates of interest. I concede that in the amendment which my hon. friend has brought forward, he has tried to improve the position so that even if there are no tangible assets,

if the State Government or a State co-operative bank or a scheduled bank can give a guarantee, accommodation could be given. But you know very well that even a scheduled bank or a co-operative bank is bound to charge some extra interest; I do not know what the position will be in the case of the State Government. Therefore, the interest rate which itself may work out to something very high; say, six per cent. or so, is bound to go further up; if the guarantor also is going to charge some interest, say, one per cent. or so, then the interest rate will be well over seven or eight per cent., which means that the small-scale industries will not be able to avail themselves of this benefit at all, while only some of the medium-sized industries may be able to get the benefit.

I would, therefore, urge that the rate of interest should be so reduced that these small concerns may not have to pay interest at more than five per cent., including the interest they may have to pay to the guarantor. I hope the Minister will try to bring about a sort of uniformity in the rate of interest, by having a common discussion with all these institutions.

With these words, I generally welcome the provisions of these clauses. But I hope the Minister will soon come forward with further amending provisions to ensure that the real purpose for which Parliament passed the Act in 1951 will be served, that the small-scale and medium-scale industries which are bound to play a very important role in our national economy are really benefited by the provisions of this Act, and that a large percentage of the assets of the State Financial Corporations do not lie bogged up in government securities or invested in the banks.

Shri Tek Chand (Ambala-Simla): While offering my support to the main principles underlying the Bill, I wish to utilise this opportunity to give my own reactions. A perusal of the review of the working of the State Financial Corporations, since their inception, leads to certain mis-

givings. I wish the report, which is fairly voluminous, had given us some more details, in particular, details which had a bearing on the ratio of the debts, which have turned out doubtful or bad.

Certain comments were offered by Shri M. K. Moitra and also by Shri M. S. Gurupadaswamy, and I do not see eye to eye with the two speakers. Referring to page 19 of this review, Shri M. S. Gurupadaswamy subjected to adverse comment the general criteria adopted for sanction of financial accommodation by the corporations. He said that the safeguards had the effect of constricting rather than encouraging safe investment. It is a little difficult for one to appreciate how it is improper on the part of a financial corporation to take into consideration the financial soundness of the concern or its technical soundness or its capacity to offer adequate security or satisfactory title, or in general, to have regard to its creditworthiness before advancing aid with a view to establishing the small-scale or medium-sized industries.

The other hon. Member took umbrage at the fact that a very large number of the applications which had been made could not be granted financial aid. I contend that no doubt, the object of the financial corporation is to give financial aid, but this financial aid ought to be given to the worthy. If this factor is not taken into account, the result will be that unworthy applicants for financial aid will be taking the funds and frittering them away, without benefiting either themselves or the country. Therefore, a closer vigilance or a greater watchfulness is absolutely necessary, in order to see that the funds that are being made available for the development and growth of small-scale industries are worthy and usefully utilised.

I wish there were material before us today which would have enabled us to find out the extent of the bad debts. Regarding subvention, I have one serious objection. If the object is to give three per cent. dividend, then obvious-

ly, logically it follows that that is the amount of dividend which is expected to flow from the profitable working of these concerns. With crores of rupees to lend, it is really regrettable that the amount of net profit really came to no more than Rs. 15,000.

Then another criticism that one can justly offer is by adopting the comments at page 15. There the reviewers themselves discovered that so far as the utilisation of funds was concerned, it was not with a view to subserve the real object of the Corporations but by way of advances and deposits in the banks. That obviously means failure to carry out the intention of the Bill.

Then certain comments have been made, and very aptly, regarding the very high expense ratio. I do feel that the expense ratio should be watched with extreme care. No doubt, we have a clause in the Bill regarding inspections. To my mind, clause 21 hardly covers the requirements of vigilance and watchfulness that is really needed. It is not so much the scrutiny which is required regarding the working of the Financial Corporations as regarding the working of the concerns to which loans are being advanced. I would much rather that this *post mortem* examination that is contemplated by this Bill, that after the money has been spent—it may be well spent or ill spent—if it is ill-spent or wasted, there should be a scrutiny, while being remotely useful, is not useful, with a view to prevent waste. It is just like closing the stable after the horse runs away. It would be much better if at the time when there is an application for loan, a proper, careful screening is done as to the credit-worthiness of the applicant, and then periodically his affairs are checked and revised and supervised with a view to see that the money is not being wasted. If there is any tendency towards extravagance or waste, then of course it should be checked or prevented then and there. This type of inspection may be all very well to review matters but then this starts after it is too late. Therefore, it would perhaps be

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advisable to draw up a plan and set up a machinery whereby the working of the loans or the application of the moneys advanced to the applicant may be periodically examined and scrutinised.

I wish we had some report or some knowledge, either from the speech of hon. Minister or from this review, as to the quantity or amount of bad debts. Then we would be in a better position to offer comments. It will be an alarming state of affairs if the statement made by Dr. Lanka Sundaram were really correct, namely, 50 to 60 per cent. of the sums advanced are in the nature of bad debts.

Then there was one comment made that was hardly responsible, when it was said that sums were being advanced as a result of political favouritism. Making a statement like that is unfortunate, especially when no attempt is being made to fortify it by any facts. It is all very well to allege that it is as a result of political exploitation or political pressure that sums were being advanced. But there is nothing to substantiate an allegation of this nature.

Shri A. C. Guha: I have to make only two or three observations. All these things have been mentioned previously also.

I am really grateful to Shri Tek Chand for drawing pointed attention to the charge of political favouritism. On the one hand, it has been mentioned that these Financial Corporations have not distributed any loan at all; on the other hand, the charge of political favouritism is levelled even before anything has been done. I do not think this is in any way established. It is not fair to make a charge of this nature on financial institutions.

I would like to say one thing. Members may get an idea of the nature of the loans sanctioned by these Corporations if I mention that the total loans sanctioned—not dis-

tributed—are to the extent of Rs. 5.48 crores and the number of applications 335. So it works not to a little over Rs. 1½ lakhs per application on an average. It would be apparent from this that these Corporations have been catering, more or less, for medium and small scale industries.

As regards the amount of bad debts, I think Shri Tek Chand agreed that it is as yet premature—after one or two years—to say that certain debts have gone bad. But surely I can say that the allegation made by Dr. Lanka Sundaram is absolutely unfounded. I have said previously also that as yet, we have not had any alarming picture of defaulting. I think, more or less, the parties have been paying their instalments, of principal as also of interest. There has hardly been any case of defaulters not much at least.

Shri K. K. Basu: What is the reason for 50 per cent. of the sanctioned amounts not being drawn?

Shri A. C. Guha: I think Shri M. S. Gurupadaswamy mentioned the rigorous conditions on page 19. There may have been something in that, though I do not agree that creditworthiness should not be looked into. But anyhow, these Corporations have not been able to give much loan. That explains the reason why the parties have not been able to draw the sanctioned loans.

Shri K. K. Basu: My question was different. Even in the case of sanctioned loans, 50 per cent. has not been drawn.

Shri A. C. Guha: I think Shri K. K. Basu will recollect that similar cases also occurred in the case of the Industrial Finance Corporation.

Shri K. K. Basu: You should improve now.

Mr. Deputy-Speaker: The question is:

"That clauses 2 to 16 stand part of the Bill."

The motion was adopted.

Clauses 2 to 16 were added to the Bill.

Clause 17.—(Insertion of new section 32A etc.)

Shri K. K. Basu: I beg to move:

(i) Page 6, line 23—

omit "managing agent or"

(ii) Page 6, line 36—

omit "any managing agent or"

(iii) Pages 6 and 7—

omit lines 40 and 41 and lines 1 to 8, respectively.

(iv) Page 8—

after line 17, add:

"Provided however, that all moneys payable to such persons as aforesaid shall not be paid to them or become payable to them till the end of any enquiry if any such enquiry is pending or is decided to be held for the misdeeds or mismanagement of such persons"

My amendments are very simple. In clause 17, it is mentioned that when the management of a concern is taken over by the State Financial Corporation, it can appoint managing agents to run it. I want to do away with this provision. I say this because when a particular industrial enterprise has been taken over by the State Financial Corporation, it means that the management of the particular institution has not been properly run. This is the most important factor because when a loan was granted to a concern, the Corporation must have considered its credit-worthiness or its ability to pay back the loan and also its ability to utilise the loan properly. Subsequently, if the concern has not been properly utilising the money or has been frittering its assets away, Government would take it over.

I want to impose a condition that managing agents shall not be appointed to run concerns taken over by Government in these circumstances. Apart from the question as to whether the managing agents have behaved well or not, we know from experience, from the valued report of the Enquiry Committee appointed to investigate the affairs of the Industrial Finance Corporation after a great deal of discussion in this House, how managing agents in some of these undertakings, the Sodepore Glass Works and others, have behaved.

Therefore, I assert that managing agents should not be appointed in such cases. Moreover, the entire purpose of the Companies Act that we have enacted is that in course of time, industrial management in the shape of managing agents, should be done away with. We have said that in course of time Parliament may decide and declare that certain industries shall not be managed by managing agents.

Therefore, I would like to urge upon Government that in this case when Government are taking over managements of certain concerns, they should not hand over the management back to managing agents, whoever they may be, because of the record of misbehaviour of the managing agents in the past. Therefore, I think Government will accept my amendment for restricting the power of the Government to appoint another managing agent in case a particular company or firm taken over by Government had been previously managed by the managing agent.

Then, I have another amendment No. 4. It is to sub-clause (2) of section 32D which is sought to be added. The first part says that there shall be no right to compensation on the termination of a contract. There is no objection even though my hon. friend Shri V. B. Gandhi had some. We welcome it. Because of their past misbehaviour the company's management is being taken over and so they

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have no right for compensation on the termination of the contract.

• But further on, clause (2) says:

"Nothing contained in sub-section (1) shall affect the right of any such managing agent or managing director, or any other director or manager or any such person in charge of management to recover from the industrial concern, moneys recoverable otherwise than by way of such compensation."

Here, I want to put in a proviso:

"Provided however, that all moneys payable to such persons as aforesaid shall not be paid to them or become payable to them till the end of any enquiry if any such enquiry is pending or is decided to be held for the misdeeds or mismanagement of such persons."

I do not dispute their legal right or even moral right to get back anything if they have invested or given as loan. But I want to restrict it. If an enquiry has been ordered to go into the conduct of the particular person or persons who worked as managing agents or managing directors, whether they have misbehaved or not, then no such money shall be given till the enquiry is completed. We know that an enquiry may take two years and these gentlemen, according to the Income-tax Investigation Commission, might have frittered away these amounts and they might be beyond the clutches of the law. My amendment is very restrictive. I do not dispute the moral or the legal right of these persons to get back the money. But they should not get it back till the enquiry is completed; otherwise it is not possible to recover from them, if necessary.

Shri A. C. Guha: I think the hon. Member has become allergic to the term 'managing agent'. I would wish him to look to the real implications of his amendment No. 2. In his crusading zeal against the managing

agents, he has put in this amendment, without realising the implications thereof. If accepted, it would mean that the contract the managing agent might have with the industrial concern would continue even if the State Corporations would have taken over the concern. Surely, I hope his intention is not like that.

Shri K. K. Basu: What about the first one?

Shri A. C. Guha: Now, I think, he has realised the absurdity of the amendment he has moved.

As for the first one, I am sorry that it is not possible for us to accept it because, even under the Indian Companies Act which we have recently passed, the managing agency system has not yet been completely abolished. It has some place, though restricted and circumscribed with many conditions. In this context also, we do not like to eliminate the possibility or chance of having a managing agent being appointed.

The third amendment is just consequential to the first.

Shri K. K. Basu: What about the fourth one which is important?

Shri A. C. Guha: Regarding the fourth one, in this Act, the State Financial Corporations Act, there is no provision for any enquiry of this nature. If the enquiry is held under the Indian Companies Act or some other Act, that Act will take care of such a contingency. So, I do not think it would be proper to provide in this Act for some contingency which might be arising out of some other Act. I am sorry I cannot accept the amendment.

Mr. Deputy-Speaker: The question is:

Page 6, line 23—

omit "managing agent or"

The motion was negatived.

Mr. Deputy-Speaker: The question is:

Page 6, line 36—

omit "any managing agent or"

The motion was negated.

Mr. Deputy-Speaker: The question is:

Pages 6 and 7—

omit lines 40 and 41 and lines

1 to 8 respectively.

The motion was negated.

Mr. Deputy-Speaker: The question is:

Page 8—

after line 17, add:

"Provided, however, that all moneys payable to such persons as aforesaid shall not be paid to them or become payable to them till the end of any enquiry if any such enquiry is pending or is decided to be held for the misdeeds or mismanagement of such persons."

The motion was negated.

Mr. Deputy-Speaker: The question is:

"That clause 17 stand part of the Bill."

The motion was adopted.

Clause 17 was added to the Bill.

Clause 20.— (Amendment of section 37)

Shri K. K. Basu: Sir, I beg to move:

Page 9—

after line 33, add:

'(c) after sub-section (1), the following sub-section shall be inserted, namely:

"(1A) The Comptroller and Auditor General of India shall be entitled to give such directives to such auditors or to lay down such rules and forms for conducting such audit and the audit shall be conducted according to such directives, rules and forms."

My amendment is very simple. Sub-section (1) of section 37 of the main Act contains a provision for the Comptroller and Auditor-General doing audit work. What I want is that the Auditor-General shall also be entitled to give such directives to the auditors because we have a provision that it should be audited by an auditor appointed by Government. I only want that the Auditor-General shall be entitled to give such directives to such auditors or to lay down such rules and forms for conducting such audit etc.

The hon. Minister said earlier that our managerial expenses are going down. I am really worried because I have studied in some detail some State Financial Corporations and their working. We do not seem to have gained much experience. If the earliest was established in Bombay and they have done some pioneering work, they must have incurred some administrative expenses. We have to take that experience into account to see whether such expenses are necessary in establishing other Corporations. I feel that many of the things can be improved upon and prevented, if the Auditor-General were to lay down certain forms etc.; we can help the State Financial Corporations to some extent. The hon. Minister may say that under the Act there is a provision for the report to be submitted to the Reserve Bank of India. Unless Government use some other pressure, the Reserve Bank is not going to look into the real working of the States Financial Corporations. They are entitled to get reports but unless the Government so authorise them, the Reserve Bank may not make any enquiry into the working.

I find in West Bengal only 16.4 per cent of the loans have been granted to the applicants. The Minister says there are difficulties about credit-worthiness etc., and the manner in which particular persons apply for loans.

In the report itself I find another factor. As in the case of the bigger I.F.C. there is provision to examine

[Shri K. K. Basu]

the titles and other things. One report says that though loans were granted no building was purchased, no licences were given under the Industries Development Act and it will take one or two years to utilise the loans advanced.

4 P.M.

That we want to put a stop to. It may be that Government can improve upon their methods. There will be several individual auditors who will audit the working of the different State Financial Corporations. I want only a standardised form to be introduced as in the matter of National Industrial Financial Corporations, if I may be permitted to use that expression, because in the case of the State Financial Corporations, they are in the same position as the Industrial Finance Corporation was before 1953 which was mismanaged. I have heard complaints from small people that though they are otherwise creditworthy etc., the loans are not being sanctioned by a peculiar group of persons who control these Corporations. We find that textiles and ceramics and similar types of industries have also got loans from the State Financial Corporations. In the West Bengal there is so much demand for this. Small lead manufacturers have been clamouring for the money; even from the private usurer, they are not getting money or getting money at higher cost for their concerns. Only 16 per cent of the assets are being utilised for loan; 40 per cent of the assets are being utilised as deposit in banks and nearly 50 per cent of such assets are being utilised for government securities. Therefore, what I insist is that if a standardised form is made and the Auditor-General is entitled to give such directives, that they can probe into the affairs within the competence of law and not as an enquiry that is to be made, that would meet the situation.

I would also urge upon the Minister of Finance why we should not

have the same kind of reporting in the sense that in the case of the Industrial Finance Corporations, we get the entire names of persons who have taken loans. In the case of the State Financial Corporations, I am told that no report is given about some of these smaller things and details. For instance, the textile industry is lumped together and an arithmetical average is given for it as Rs. 1,00,000. It may be that Rs. 10 lakhs may have been taken, out of which Rs. 7 or 8 lakhs may have been taken by influential persons and only a few people might have got a lower limit. You cannot say that the average is Rs. 1,25,000 per individual loan, because from such a statement one may deduce that the individual small industrialist has got that amount of money as loan.

I hope that there should be a uniform form in which the reporting has to be made. So far as the annual report is concerned, it should be in the same form as in the case of the National Industrial Financial Corporation. The details of the names of the persons who have taken loans should be there. Therefore, the Auditor-General should be authorised to give such directives and lay down a certain form in which audit is to be conducted, so that we may have uniformity throughout the country. That is my object in moving this amendment.

Shri A. C. Guha: This amending clause refers only to the appointment of auditors just after the establishment of the State Financial Corporations. In the beginning it may not be possible to have the meeting of the Board to appoint the auditors as provided in section 37 of the Act. If this amendment is accepted, the new auditors, that is, the auditors that will be appointed at first will be put in a discriminatory position from the auditors who may be appointed later.

Shri K. K. Basu: Why?

Shri A. C. Guha: Because this clause will be read only with this amendment.

Shri K. K. Basu: I have put in a separate sub-clause (c).

Shri A. C. Guha: Anyhow, the functions or the obligations of the auditors are put in section 37 of the Act, and I do not think it is necessary for us to accept an amendment of this nature, as I am afraid it will create difficulties for the new auditors and it will introduce discrimination between the new auditors and those that would come later.

Mr. Deputy-Speaker: The question is:

Page 9—

after line 33, add:

'(c) after sub-section (1), the following sub-section shall be inserted, namely:

"(1A) The Comptroller and Auditor-General of India shall be entitled to give such directives to such auditors or to lay down such rules and forms for conducting such audit and the audit shall be conducted according to such directives, rules and forms."

The motion was negatived.

Mr. Deputy-Speaker: The question is:

"That clause 20 stand part of the Bill".

The motion was adopted.

Clause 20 was added to the Bill.

Clause 21.—(Insertion of new section 37A)

Shri A. C. Guha: I beg to move:

Page 10, lines 3 to 7—

for "The Central Government may direct the Reserve Bank to inspect the working of any Financial Corporation, and if so directed, the Reserve Bank shall cause an inspection to be made by one or more of its officers, of

the Financial Corporation and its books and accounts"

substitute: "The Reserve Bank at any time may, with the approval of the Central Government, and on being directed so to do by that Government, shall, cause an inspection to be made by one or more of its officers of the working of any Financial Corporation and its books and accounts".

This is just a drafting amendment. Previously it has been put that the Reserve Bank is to have this inspection after the Central Government directs it to do so, but now the Reserve Bank is to have this inspection with the approval of the Central Government, and also in special cases the Central Government may ask the Reserve Bank to do it, and in such cases the Reserve Bank shall conduct the inspection. The inspection report will be submitted to the Central Government as also to the State Government. The whole thing remains more or less the same and only the first two lines have been changed, which is just a drafting change.

Shri K. K. Basu: Will this report be a confidential report or form part of the annual report?

Shri A. C. Guha: It is not part of the annual report. The annual report will be submitted by the Board of the Corporation. But this will be a report of the Reserve Bank; it will be an inspection report and will be submitted to the Central Government as also to the State Government concerned.

Mr. Deputy-Speaker: The question is:

Page 10, lines 3 to 7—

for "The Central Government may direct the Reserve Bank to inspect the working of any Financial Corporation, and if so directed, the Reserve Bank shall cause an inspection to be made by one or more of its officers, of

[Mr. Deputy-Speaker]

the Financial Corporation and its books and accounts”

substitute: “The Reserve Bank at any time may, with the approval of the Central Government, and on being directed so do by that Government, shall, cause an inspection to be made by one or more of its officers of the working of any Financial Corporation and its books and accounts”.

The motion was adopted.

Mr. Deputy-Speaker: The question is:

“That clause 21, as amended, stand part of the Bill”.

The motion was adopted.

Clause 21, as amended, was added to the Bill.

Clauses 22 to 25 were added to the Bill.

Clause 1, the Enacting Formula and the Title were added to the Bill.

Shri A. C. Guha: I beg to move:

“That the Bill, as amended, be passed”.

Mr. Deputy-Speaker: Motion moved:

“That the Bill, as amended, be passed”.

Shri L. Jogeswar Singh (Inner Manipur): I am going to refer to certain points about which nothing has been mentioned in the course of the discussion that we were having. Not a single speaker has mentioned about them.....

Mr. Deputy-Speaker: Those deficiencies are not to be made up in the Third Reading stage—what has been done during the Second Reading and what ought to be done. This is the Third reading stage.

Shri L. Jogeswar Singh: This is in connection with the provision relating to Part C States. Here provision has been made to form Joint Financial Corporation for Part C States

We have seen in the list that Financial Corporations had already been established in Punjab, Saurashtra, Bombay, Travancore-Cochin, Hyderabad, West Bengal, Assam, Bihar, U.P. Rajasthan, etc., but not in any Part C State such as Delhi, Himachal Pradesh, Manipur and Tripura. By the passing of this Bill, these Part C States will be enjoying the benefits of these Corporations. For a long time all these Part C States have not been enjoying or rather they have been deprived of the advantage of enjoying the benefits of loans already extended to medium and small-scale industries. If this Bill had been passed long ago, these Part C States would have been given the advantages and facilities that had been extended to the other States.

Provision has again been made regarding the jurisdiction of the Financial Corporations which have been in existence in the other States—it may be extended to the neighbouring States. In the case of Tripura and Manipur, the situation is such if they form a Joint Financial Corporation for Assam, Manipur and Tripura together, the jurisdiction of the Assam Financial Corporation may have to be extended to Tripura and Manipur. But here is a difficulty. Whenever the jurisdiction is extended from Assam to Tripura and Manipur, the headquarters is situated in Shillong, and so the financial activities of all these loans available will be concentrated in Shillong.

My suggestion is this. Whenever there are such joint corporations, there should be more than one headquarters. For instance, the jurisdiction of the Assam Corporation extends to Tripura and Manipur and so there should be a branch of this Corporation in Manipur and Tripura. For Delhi and Himachal Pradesh there may be an amalgamated corporation with that of the Punjab or these States may themselves form into a corporation.

There is another important point. People are now disgusted with these monetary organisations. In Manipur State, many banks were liquidated.

The Tripura Modern Bank, the Assam Bank, the Calcutta Commercial Bank all have been liquidated and public money has been misused. There have been embezzlements and frauds to the tune of forty lakhs of Rs. and the people had deposited money in these banks. They view these things very seriously. So, the provision regarding the inspection of the working of these corporations should be effectively implemented. The working of the banks or corporations should now and then be inspected by the auditors so that the public money may not be squandered. Only then, the public will have faith and confidence in the banks and corporations.

We have many small-scale and cottage industries in our part of the country. Manipur and Tripura are economically backward areas. The most backward areas are the Centrally-administered areas. So, this facility has to be extended to those areas, so that their economic condition can be improved. I welcome this Bill so far as it relates to the Part C States.

Shri N. R. Muniswamy (Wandiawash): I welcome this Bill as the difficulties which have been experienced are now sought to be removed by this Bill. In the context of the planned industrial development and the Second Plan and the other Plans that are to come, I have to make one suggestion. The previous speakers brought to limelight some of the difficulties and also how the corporations were working in an unsatisfactory way. Several suggestions have been made and I do not want to take much of the time of the House.

I shall deal with only one aspect of the problem and be done with it. My friend here, on this side, suggested something about the audit of the affairs of the financial corporations and suggested several methods. I have gone through this document very carefully; it has been placed in the library for the benefit of the Members. I find one small lacuna. The affairs of the financial corporations are being audited by two auditors, one appointed by

the State Government in consultation with the Auditor-General and the other by election in a certain manner. It has been apprehended that large amounts of money are likely to be spent or wasted and that ultimately they may ask for waiving or writing off that amount. With a view to avoid such a contingency, I suggest that we should have an accountant. Though there is no legal basis for the appointment of an accountant from the side of the corporation, there is nothing wrong on its part to send an accountant the moment the loan is granted and money is advanced. Loans run into lakhs according to the assets, the nature of the work and the position and importance of the industry. He will sit tight on the money deposited in the scheduled bank and as and when money is drawn and spent from the loan he has to account for it. Auditing is one thing and accounting is another thing. Audit comes in after the money is spent and then the remarks are made by the auditors. The work of the accountant is not of that type. He has to see the relevancy or the utility of the money. So, he will be in a position to see that the money is not unnecessarily spent. In order to avoid the loss of such fabulous amounts, it is better that an accountant is also appointed by the corporation, though that accountant cannot be said to have any legal responsibility as per this Bill. There is nothing wrong and a man can be deputed at the cost of the State Government or the corporation. He will go and sit there and check the amount and also the accounts as and when the money is drawn and spent. He should, first of all, be satisfied that the money is needed for a genuine expenditure and then only it could be spent. With these remarks, I commend this Bill.

Shri Achuthan (Cranganur): Sir, I will be very brief. The House has welcomed the Bill. During the last three years, from 1953 onwards, we have set up thirteen corporations. We have issued about fifty per cent. of the money sanctioned i.e., Rs. 5.5 crores were sanctioned and half of that has

[Shri Achuthan]

been distributed. That depicts not a very encouraging picture of the work done by the State corporations. We expected that there will be a rush to these corporations, when these were set up; and also that the industrialists and others would take advantage of these to improve the existing concerns and also to start new ones.

From the report, we are not able to see what they have done in carrying out the provisions contained in section 25 (a), (b) and (c). Are they there to give loans alone? Did they undertake to guarantee debentures, etc.? My State stands first in the percentage of disbursement of loans; it has also the lowest percentage of administrative expenses. I am proud of it. But, when I enquired about it there, there was a complaint. They say that it is a cumbersome procedure and people feel it better to approach big persons and have Rs. 25,000 or Rs. 50,000 as loan than approaching these corporations. They were saying like that. That apprehension must be removed. It must be made possible for industrialists, if they are credit-worthy, to apply and get loans without much difficulty. Favourable conditions must be created by the Government with regard to the required certificates, registration and all that, so that it may serve as an incentive to industrialists and business people to approach these corporations without going to other people for help. As far as I know this is the only institution which will advance money to small industrialists. With regard to agriculturalists we are going to have co-operative societies and land mortgage banks. With regard to big industrial people we have the Industrial Finance Corporation, Development and Credit Corporation and many other institutions. As far as I know, this is the only institution which gives money to the small-scale, medium-sized and cottage industries. And that is the one thing which we want in the next Five Year Plan to be decentralised and expanded. In my State that is the only solution. Shri C. D. Deshmukh,

our ex-Finance Minister, when he was touring in my State told me that with regard to Travancore-Cochin the only solution was to see that small-scale industry was spread out, and by that only we could solve the problem of unemployment and economic development of the State. Therefore, the Government must see that the State Financial Corporations work properly and people must be attracted for borrowing money from these corporations.

Shri K. K. Basu: Mr. Deputy-Speaker, Sir, I have already said a good deal of what I have got to say on this particular Bill. I welcome certain provisions of this amending Bill. It is definitely an improvement on what it was before. As my friend, who spoke just before me, has said, not only in Travancore-Cochin but in many other States small-scale and cottage industries have got to play a very important role. I referred to the small-scale engineering firms round about the Calcutta industrial area which are badly in need of finance and which do not get any loans in spite of their making many applications.

Sir, I would only emphasise on one point. As the power is being taken by the new amended provision for the Reserve Bank of India to enter into the affairs *suo moto* of these corporations—I think that is the implication of the new amendment—and as the Finance Minister, however much I wished, did not accept my amendment authorising the Auditor-General to give such directives to the auditor who may be appointed by the Government on his advice, the Reserve Bank of India must probe into the affairs of all the State Financial Corporations and give a comprehensive report, as in the annual reports on banking and currency or the co-operative banks and in much more details than what is published in the annual reports of the State Financial Corporations. All of us want to see that these State Financial Corporations work in the proper spirit in which this Act was

enacted, so that our small and medium sized industries get the benefit of these corporations.

Therefore, I would only request the hon. Minister to direct the Reserve Bank immediately to give a comprehensive report, to see that the defects are removed and to improve upon the working of the State Financial Corporations. A comprehensive report should be given to the public and the nation, because it is the nation that has invested money in this particular concern. We should see to what extent these State Financial Corporations can work to the benefit of the country, to help the economic development of the country and the entire nation. That is the only request that I have to make to the Minister.

Shri A. C. Guha: Mr. Deputy-Speaker, Sir, I am thankful to the Members for the general support they have extended to this amending Bill. I think I should first reply to Shri L. Jogeswar Singh. I can appreciate his anxieties about his own region, Manipur and Tripura. If the jurisdiction of any corporation is extended beyond the boundaries of one State, I think it may be really necessary for that corporation to have branch offices. There is no bar to that. In fact, if Manipur and Tripura ever combine with the Assam State Financial Corporation, then their Governments may ask the Assam State Financial Corporation or the Assam Government to establish local branches. That may also be in the interests of the corporation itself to expand its business.

Then he said something about bank liquidation. That has nothing to do with this Bill. But yet I hope that the question of bank liquidation has now become a thing of the past. We expect that we shall not any more hear of bank liquidation at least on the scale that we have seen in Bengal and other places.

About the Manipur State Bank in his own State, I am not quite sure but I speak subject to correction, that the

State Bank of India has recently conducted an inspection of that Manipur State Bank. At least the State Bank and the Reserve Bank are both interested in doing something about the small banks working in Part C States.

Shri N. R. Muniswamy said something about an accountant. I cannot understand what he really means. Surely, all these corporations have their own accountants, and under section 27(1) of the Act.....

Shri K. K. Basu: As soon as a loan is granted the loanee company should have an accountant of its choice.

Shri A. C. Guha: That will add to the charge of that company. They want loan to be given at a low rate of interest. If they are given a loan of Rs. 10 lakhs or Rs. 20 lakhs, and an accountant is just imposed on them, I think no company would come for loan to these corporations.

Shri K. K. Basu: Just like a durwan.....

Shri A. C. Guha: For the safety of the investment under section 27(1) the State Corporations have got sufficient power to impose necessary conditions.

I quite appreciate that the people should be attracted to apply to these corporations and the sanction of loans should be made easier. There should not be so many formalities and so much delay in the sanction of these loans. I think the Reserve Bank will look into the matter.

As Shri Basu has suggested, the Reserve Bank will surely inspect these corporations in an effective and efficient manner and our amendment, as he has just pointed out, gives the Reserve Bank authorities and power *suo moto* to conduct an inspection. As I said earlier, that would be an annual feature and a regular feature.

Shri K. K. Basu: They must publish the report.

Shri A. C. Guha: I hope the Bill, as amended, would be passed.

Mr. Deputy-Speaker: The question is:

"That the Bill, as amended, be passed."

The motion was adopted.

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**RESOLUTION RE DRAFT MINING
LEASES (MODIFICATION OF
TERMS) RULES**

Mr. Deputy-Speaker: We will now take up the resolution regarding Draft Mining Leases (Modification of Terms) Rules. Two hours have been allotted for this.

The Minister of Natural Resources (Shri K. D. Malaviya): Sir, I beg to move:

"This House approves the draft Mining Leases (Modification of Terms) Rules, 1956, framed under sub-section (1) of section 7 of the Mines and Minerals (Regulation and Development) Act, 1948 and laid on the Table of the House on the 22nd August, 1956".

I have nothing to add to the resolution except that these are very important amendments which have been made in order to bring the terms and conditions of the existing mining leases in conformity with the latest Mineral Concession Rules. There were large areas under these existing old mining leases held by parties who could not manage it. They could neither assess nor utilise the mineral wealth for the nation's benefit. Therefore, it is considered necessary that they should all be brought in conformity with the existing Mineral Concession Rules. So I submit that we should receive the sanction of the House to this.

Mr. Deputy-Speaker: Resolution moved:

"This House approves the draft Mining Leases (Modification of

Terms) Rules, 1956, framed under sub-section (1) of section 7 of the Mines and Minerals (Regulation and Development) Act, 1948 and laid on the Table of the House on the 22nd August, 1956".

Shri N. C. Chatterjee (Hooghly): May I just request the hon. Minister, Sir, to give us a little more explanation of the more important features? He has dealt with it in such a way that he has practically given us no information, nothing to elucidate. He has not said what exactly are the points.

Mr. Deputy-Speaker: The hon. Minister has taken it for granted that all Members are now conversant with the Rules because they were placed on the Table of the House some time ago. Even then, it would be better if the hon. Minister gives some elucidation, of the changes, what the new rules contain, what is the object of the changes, etc.

Shri N. C. Chatterjee: I can also assure the hon. Minister that the mining interests which are affected by these rules, have been deeply perturbed, and they have been complaining that they have got many grievances and that they have tried to contact the hon. Minister many a time as well as the Committee, to make their representation. We want to know what those grievances are and how far they are going to be met.

Shri Feroze Gandhi (Pratapgarh Distt.—West cum Rae Bareilly Distt.—East): Further, the hon. Members may complain that they have not heard the Minister's speech, because there is no quorum now. The quorum bell may be rung.

Mr. Deputy-Speaker: Shri Feroze Gandhi is more solicitous about the Members who are not here. The quorum bell is being rung—Yes, now there is quorum. The hon. Minister may continue.

Shri K. D. Malaviya: I am surprised that my hon. friend Shri N. C. Chatterjee feels that these rules have