

THE MINISTER FOR WORKS, HOUSING AND SUPPLY AND COMMERCE AND CONSUMER INDUSTRIES (SAR-DAR SWARAN SINGH) : (a) No, Sir. A delegation has arrived from Burma to conclude the negotiations.

(b) The question does not arise.

POWER HOUSE ON THE NANGAL CANAL NEAR KOTLA

260. Mom.ANA M. FARUQI: Will the Minister for IRRIGATION AND POWER be pleased to state:

(a) the power capacity of the second Hydro-electric Power House on the Nangal Canal near Kotla which has recently been opened; and

(b) at what cost it has been completed?

THE DEPUTY MINISTER FOR IRRIGATION AND POWER (SHRI J. S. L. HATHI) : (a) The installed capacity of the Kotla Power House consisting of two units of 24,000 K.W. each is 48,000 K.W. With the addition of the 3rd unit, proposed to be installed, its capacity would be 72,000 K. W.

(b) At an estimated cost of Rs. 5,20,61,800.

12 NOON

PAPER LAID ON THE TABLE

STATEMENT ON THE FLOOD SITUATION IN THE COUNTRY

THE DEPUTY MINISTER FOR IRRIGATION AND POWER (SHRI J. S. L. HATHI) : Sir, I beg to lay on the Table a Statement on the flood situation in the country. (Placed in Library. See No. S-365|S6.)

ALLOTMENT OF TIME FOR THE INDIAN POST OFFICE (AMENDMENT) BILL, 1956

MR. CHAIRMAN: I have to inform Members that under Rule 162 (2) of the Rules of Procedure and Conduct of Business in the Rajya Sabha, I have allotted forty-five minutes for the completion of all stages involved in the consideration and return by the Rajya Sabha of the Indian Post Office (Amendment) Bill, 1956, including (he consideration and passing of amendments if any, to the Bill.

THE STATE FINANCIAL CORPORATIONS (AMENDMENT) BILL, 1956—continued

MR. CHAIRMAN: We now go back to the State Financial Corporations (Amendment) Bill, 1956. Mr. Sinha, you were talking yesterday when the House adjourned. Well, the Minister will reply by one o'clock, because the time allotted is two hours.

SHRI RAJENDRA PRATAP SINHA (Bihar): Mr. Chairman, yesterday I was dealing with the grounds on which a large number of applications for loans were rejected.....

SHRI IASPAT ROY KAPOOR (Uttar Pradesh): The time allotted is two and a half hours.

SHRI RAIENDRA PRATAP SINHA:and I pointed out that the concept of creditworthiness needed a re-examination.

Another point that requires the attention of my learned friend is that although the Corporations are permitted to invest in industrial stocks, loans and debentures of companies in consequence of underwriting liabilities subject to their disposal within seven years, the Corporations have not yet done so. If we want to raise a large number of entrepreneurs in our country, these Corporations must participate in equity capital, provided they are convinced of the technical soundness of the scheme. There is no question of any loss in any industry today, once an industry is properly started and efficiently managed, because of the planned economy under which we are working. If you look at the history of industrialisation in other countries, you will find what positive and active parts and risk capital were taken by such Corporations, in those countries. I shall here refer the House to the brochure brought out by the Lok Sabha Secretariat on this subject on page 6 of which they say:

".... a larger number of such financial institution abroad, e.g., the R.F.C. of the U.S.A., the Canadian I.D.B., the British ICFC and the F.C.I., the Industrial Finance Department of the Commonwealth Bank of Australia and the Industrial Credit Bank of Argentina, possess the power to provide ownership capital directly.

The policy of several of these agencies, however, is not to retain their direct investment for ever, but to attempt the transfer of such share-holdings to public hands at propitious times so as to be able to release their valuable funds for re-employment."

This should be done in our land also and I would urge upon the hon. Minister to see that this is done here. Sir, if we want to realise the dream of our industrialisation, that can only be achieved if we have in our country a horizontal expansion of industries and not merely a vertical expansion. The Corporation should help the horizontal expansion by equity participation and by raising a new class of entrepreneurs.

Now I shall point out to you that the interest charged by the Corporation varies from 5 per cent, to 7 per cent. and higher rates are charged for lower amounts. In a socialist pattern of society that we aim at, those who have smaller capacity to pay should not be made to pay more than their rich brothers and I submit that I consider that the rates of interest charged on these long-term and medium-term loans are exorbitant and inhibitive. I would urge upon the Minister to look into these matters and see whether these rates of interest can be reduced and if the Corporation can participate in equify capital. The question of rate will not arise in that case, and I am sure that the Corporations would earn much more than what they are earning today" which is only 6 per cent, rate of interest.

I submit that the Corporations must devote in industrial extension service. The Corporations in other countries foster industrialisation by providing technical service and management improvement advice. Now I find that many of the Corporations here have a complaint that the applicants do not have their accounts in proper order. Similarly, troubles were faced by the corporation in the United Kingdom and they quickly opened a managerial and accounting service which they provided to their clients at a nominal rate. Sir, the spirit with which the Corporations in other industrial countries were formed was commendable. They want to achieve the objective in view, that is to say the growth of industria-

lisation. The minor difficulties that cropped in their way were not allowed to stop them and to come in the way of their achieving the objective and I wish, Sir, that our Corporations in India also developed that outlook. Take the case of Bihar. We have vast possibilities and potentialities for opening up new lines. We have got there people with money and who are prepared to invest. But Bihar being a backward State, the people do not know

(Interruption.)

Yes, industrially it is backward as compared to West Bengal. So in Bihar they do not know the technique, they do not have the know-how and they do not know how to proceed in the matter of opening new industries. Therefore, the Bihar State Finance Corporation should harness the resources available and that they can do only if they have a technical service at their disposal.

Now, I would like to say a few words regarding the clauses that are being introduced in this Bill. About clause 9, I must say that the Managing Directors of the Corporations should be assured of their security of service and independence of action. They should be free from local factions. I do not grudge giving powers to the State Governments to remove them after consulting the Board. I would like a convention to be developed that the State Government should take such drastic action only after taking the advice of the Reserve Bank. Only then will healthy precedents be developed so as to assure a sense of security and independence to the Managing Directors of these Corporations.

Coming next to clause 17, we have a new sections being introduced. I would refer to 32E(1) (a) and request the hon. Minister to consider the proposition of having at least one shareholders' representative on the Board of Management set up by the Corporations for the industries which they undertake to manage.

Lastly, Sir, I will draw your attention to clause 4 where provision is made for agreement between two States to set up a joint Corporation. I would ask the hon. Minister whether it is not desirable to provide in this agreement for the dissolution of such a joint Corporation

[Shri Rajendra Pratap Sinha.] also. It may be that one of the States is not in a position now to have an independent Corporation, but it may be that on a future date, it may develop sufficiently its capacities so as to have an independent Corporation of its own. In that case, in such a contingency, a provision should be made in the agreement itself that there could be dissolution of such a joint Corporation and then the agreement should also provide for the division of the assets and liabilities of the Corporation in such a contingency. Thank you, Sir.

SHRI S. C. KARAYALAR (Travan-core-Cochin): Mr. Chairman, Sir, I rise to support the motion for consideration of this Bill.

Judging from the work turned out by some of these State Financial Corporations I think, Sir, they are playing an important role in the development of the economy of the country in the private sector. There is a strong case made out in the Statement of Objects and Reasons for strengthening the hands of the State Financial Corporations. It is with this object, Sir, certain new amendments have been brought forward to the State Financial Corporations Act, 1951.

Now I shall deal with some of the clauses that are proposed to be incorporated in the main Act. One of the main amendments relates to the establishment of Joint Financial Corporations for two States and more. That is embodied in clause 4. Then the next one relates to the borrowing powers of the State Financial Corporations, embodied in clause 6, and the third amendment, the main amendment is in clause 17, which proposes to incorporate new sections 32A, 32B, 32C, 32D, 32E and 32F. And finally, Sir, there is a proposal to incorporate section 37A, which is to provide for the inspection of the State Financial Corporations by the Reserve Bank of India at the instance of the Central Government or on their own initiative under certain conditions.

Sir, I shall deal with these amendments briefly. Sir, the case for the establishment of Joint Financial Corporations has been made out in the Statement of Objects and Reasons of the Bill. It is intended to provide for the participation of some Part C States where it is not possible for any single

State to undertake the establishment of a Financial Corporation. That is a good provision, Sir. It ought to be supported.

Then coming to clause 6, whereunder it is proposed to vest a Financial Corporation with power to borrow money from the Reserve Bank. I have got to say, Sir, that this clause is really intended to amend section 7 of the original Act. Sir, section 7 of the original Act, deals with the additional capital of the Financial Corporations. Sir, when this section is amended as proposed, it would mean that the Corporation will be competent to add to its capital by way of borrowing from the Reserve Bank of India on short-term basis, not exceeding three months at a time. Sir, when you say that the Corporation may increase its capital by way of borrowing from the Reserve Bank on short-term basis, it is inconceivable that such funds derived from the Reserve Bank on short-term basis can add really to the capital of the Financial Corporation. The capital of the Financial Corporations is intended to serve the long-term needs of parties or industrial concerns. By borrowing on short-term basis from the Reserve Bank of India, they cannot really serve the long-term needs of industrial concerns. This is really a misnomer. It does not fit in with the particular section. As a matter of fact it will be more in the nature of a burden on the Financial Corporation to borrow from the Reserve Bank on short-term basis and finance industrial concerns as per the terms of section 25. It may be relevant to enquire into the purposes or the nature of the business which the Financial Corporation may transact under section 25 of the Act. Sir, if you refer to section 25(1) (a) you will find that the business that the Financial Corporation may carry on and transact is the guaranteeing of loans raised by industrial concerns which are repayable within a period not exceeding twenty years. That refers to the long-term nature of the loans that may be granted by the Financial Corporation. Then again, Sir, if you refer to clause (e) of section 25(1) you will find that the Corporation may grant loans or advances to industrial concerns which are repayable within a period not exceeding twenty years from the date on which they are granted. So it makes clear the nature of the loans and advances that may be made by the

Financial Corporation.. It will be inconsistent with the purposes of the Financial Corporation's business to borrow from the Reserve Bank on short-term basis and lend on long-term basis. That is absolutely uncommercial and unbusinesslike. That ought not to be. As a matter of fact, Sir, if at all a clause of this nature is to be incorporated, it ought to be brought under section 25 or section 28 of the Act. It may be brought under the classes of business which the Financial Corporation may transact. I can understand, Sir, the Minister in-charge rising and saying that it is only intended to get over a temporary shortage of funds. That will be very misleading because the amendment that is brought forward is under section 7 of the Act. It will be very misleading if you put that amendment in section 7 of the Act because it will give the impression that the Financial Corporation may finance long-term projects or grant long-term loans by borrowing from the Reserve Bank. This is absolutely wrong in principle. It is inconsistent with the purpose of the Act itself.

Now, Sir, I come to clause 17 of the Bill. Clause 17 deals with the case in which the management of an industrial concern, to which an advance has been made, is taken over by a Financial Corporation under certain contingencies. The new sections that are proposed to be incorporated, namely 32A to 32F, all deal with the procedure to be adopted by the Financial Corporation when the management of an industrial concern concerned is taken over. Now 32A deals with the appointment of directors in the case in which the industrial concern is a company. Then section 32B deals with the vacation of their offices by the directors of the original company, and so on and so forth.

Sir, these are all matters of procedure which ought not really to be incorporated in the Act itself. They are really matters which ought to find a place in the regulations to be framed by the Corporation. Also they are matters which can legitimately be dealt with in the agreement to be entered into—in every case there will be an agreement entered into—with the industrial concern. They ought to be incorporated in the agreement to be entered into and they ought not to find a place in the Act itself. There is

another reason, Sir, why this matter of procedure laid down in the new sections 32A to 32F should not be incorporated there because they do not deal exhaustively with the subject-matter which is dealt with in those new sections. For instance there may be cases in which it is possible that the industrial concern concerned may have to be handed back to the original company or concern. There is no provision made for the handing over of the management of the concern in such cases.

Then there is also another lacuna. Under new section 32B it is proposed that when the management of a concern is taken over in case it is a company, the original directors shall be deemed to have vacated their offices. What happens to them in case the concern is handed back? There is no provision for the reinstatement of those original directors. This is a lacuna which ought to have been provided for. If you want to provide for all such cases, provision should be made to cover all these lacunae. That has not been done. So there is a strong case for relegating these matters to the regulation-making powers of the Corporations. You will find that under section 48 of the Act they have got powers to lay down conditions which the Financial Corporations may impose in granting loans or advances.

[MR. DEPUTY CHAIRMAN in the Chair.]

They could also make regulations regarding taking over of the management of any industrial concern. So there are ample powers given to the Board of Financial Corporations to make regulations to provide for all the matters that are contemplated here. But, as I said, there are certain defects in these which have not been removed. There will be cases in which you will have to hand over the management of the concern and such a contingency has not been covered and there is likely to be difficulty when such contingencies arise. So my point is that this ought not to be in the main Act; I have no objection to its being incorporated in the regulations and, as a matter of fact, all these matters will find a place in the agreement to be entered into between the industrial concern and the corporation.

The other point that I want to raise is about the provision relating to inspection of the Financial Corporations.

[Shri S. C. Karayalar.]

There is a provision in this Bill for inspection. It says: "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." There is no objection to the Reserve Bank making an inspection. But what I want to suggest is that these corporations ought to be subject to periodical inspections; whether the Reserve Bank acts *suo motu* or under the direction of the Central Government, there ought to be periodical inspections having regard to the nature of the work done by these corporations, say, at the end of every five years.

Another point which I want to make is that there is no provision for the inspection of the Corporation at the instance of the State Government concerned. As a matter of fact, it is the State Government concerned that is vitally interested in the inspection of the Corporation and there is no provision for that. So there ought to be provision for inspection at the instance of the State Government concerned. Sub-section (4) of the proposed section 37A says: "The State Government may, after considering any report sent to it under sub-section (1), give such instructions to the Board as it considers necessary and it shall be the duty of the Board to comply with such instructions." The State Governments are vitally interested in seeing that the Corporations function properly and therefore there should be provision for inspection being made at the instance of the State Government concerned. As I said, periodical inspection is also very necessary. Whether the Reserve Bank moves *suo motu* or not, inspection ought to be made compulsory periodically. With these observations I support the motion for consideration.

SHRI P. D. HFMATSINGKA (West Bengal): Mr. Deputy Chairman, I have heard with interest the suggestion made by my hon. friends, Mr. Sinha and Mr. Karayalar and I generally support the suggestions made by them. The amendments that are proposed in the present Bill go to some extent to remove some of the difficulties that have been experienced by the State Financial Corporations but I am afraid they do not go far

enough. The main difficulty that is being experienced in granting loans to small-scale industries that apply for help is the nature of securities asked for and the nature of the terms that are imposed on them. You will find that small-scale industries generally do not have landed properties or anything of that nature which can be offered as security. Small-scale industries having a capital of about Rs. 20,000 or Rs. 25,000 or nearabout generally are not in a position to offer the kind of security which is insisted upon under the Act by the State Financial Corporations. Some method should be found whereby these Corporations may be enabled to advance money to these small concerns. After all, the amount of money that will be needed by these small concerns will not be large and if the Corporations, after making proper enquiries about the trustworthiness of the persons in charge of such business, advance some money and if a proper check is maintained by the Corporations, I think in most cases they will be able to get back the money that they advance. Otherwise what happens is this. I know of cases where even an industry which has put in, say, a capital of about Rs. 2 lakhs and which is manufacturing articles of great importance, is not able to get any loan simply because it has not got any landed property. They cannot offer that kind of security and they are not granted any loan and the result is many young men who started such industries, and promising industries at that, find it difficult to get the necessary support and financial help from these Corporations. I would therefore suggest that some method should be found whereby this difficulty can be avoided.

Another difficulty that is experienced by a large number of concerns is about working capital. Of course, it is generally the function of commercial banks to give working capital but in the case of new industries which are started, the commercial banks are not very willing to advance the working capital that is required and I suggest that the Financial Corporations should be enabled to give a certain amount of money, a certain percentage, for working capital also in cases where the Board of Directors of the Financial Corporation are satisfied as regards the suitability or otherwise of the concern which applies for such loans.

Sir, all these may appear to be small difficulties but they are standing in the way of a large number of applicants getting the necessary help. I have had occasion to be on the Board of one of the Financial Corporations and I found in practical working that these difficulties were standing in the way of proper help being given.

So far as amendments regarding the class of business that may be transacted by the Corporations is concerned, some attempt has been made by defining in the Explanation the expression 'processing of goods'. So far so good; but I feel that a large number of concerns which might need the help of Financial Corporations will still be excluded from being entitled to get the help from these Corporations.

Instructions should be given that this clause may be interpreted in a manner whereby the concern which deserves help, which needs help and which cannot go on without such financial assistance may be enabled to have that help from the Financial Corporation. After all, these State Financial Corporations are being established to give necessary help to persons who are trying to start industries in different places under difficult circumstances and I think that even at a certain amount of risk the Corporation should be prepared to help them. And one of the businesses which the Financial Corporations can transact under the existing provisions of the Act is as in the clause here, underwriting the issue of stocks and snares, bonds and debentures of industrial concerns. Sir, this provision is not being very much utilised and as has been suggested by previous speakers I think they should more and more be prepared to underwrite the issue of shares and stocks by companies which are on sound lines. That will also advance the possibilities of these concerns getting help when they need. With these few suggestions I support the provisions that have been made in this Bill.

SHRI JASPAT ROY KAPOOR: Mr. Deputy Chairman.....

MR. DEPUTY CHAIRMAN: At one o'clock I am calling the hon. Minister to reply. There are more speakers.

SHRI JASPAT ROY KAPOOR: Sir, I will be very brief. At the outset, I would like to express my appreciation

and sense of gratitude to the hon. Deputy Minister for the very lucid manner in which he has explained the subject to us. As a matter of fact, he has performed the very remarkable duty of the draftsman of this measure, who I find has failed to give, as in the original Bill introduced in the Lok Sabha, notes on the various clauses of the Bill. These notes on various clauses of the Bill are always helpful to us in having a clear implication of the substance of the measure and we would very much like it if notes on clauses are almost invariably given to us. Be that as it may, the hon. Deputy Minister has given us a clear idea of the substance of this measure and we are grateful to him for that.

The main object of this measure and the main reason why this measure has been presented to us is that the various State Financial Corporations have not been able to loan out the capital that they have had to small-scale or medium-scale industries. Now, that is a very laudable object, but then when I scru- finised the various provisions of this Bill, in order to find out to what extent that object can be fulfilled, I am sorry to submit that I feel a little disappointed. Now, as has been clearly and at very great length pointed out to us yesterday by our hon. friend, Mr. Sinha, who gave us the figures relating to this question, these State Financial Corporations have with them an amount to the tune of Rs. 101 crores. Out of that only about Rs. 2.7 crores they have been able to sanction as loans. Now, this is not a very happy state of affairs. The question, therefore, arises as to why is it that with all this huge capital lying idle with them they have not been able to give out loans to various industrial concerns. Surely, there is no dearth of industrial concerns in this country in need of financial aid; and as the statement, which has been so kindly placed by the Ministry concerned in the library giving us some idea of the manner in which these Financial Corporations have been working in the last several years, shows the number of applications was pretty big, was pretty high. But in spite of that a very large number of applications have had to be rejected and only a very small amount, only about 25 per cent, of the entire amount available for being loaned out has been sanctioned. And the actual amount disbursed to the industrial concerns is very much less even. Taking

[Shri Jaspal Roy Kapoor.] the case only of Uttar Pradesh, we find that though an amount of over Rs. 21 lakhs was sanctioned, out of that only about Rs. 3i lakhs has been loaned out actually. Now, I do not know what particular reason there was in the case of Uttar Pradesh. And similarly, in the case of other States, why even the amounts sanctioned could not be availed of by the industrial concerns?

SHRI P. D. HIMATSINGKA: For not complying with the conditions.

SHRI JASPAT ROY KAPOOR: Now, Sir, my hon. friend, Mr. Himat-singka, who has much greater experience about these financial concerns and industrial institutions than I have, says that the reason is that the conditions which are imposed by the Financial Corporations are much too stiff. True. We have, therefore, got to see that these conditions are not allowed to remain as stiff as hitherto.

One other reason that I have been told by several industrial concerns is that apart from the stiff security conditions insisted on by the Financial Corporations, they feel shy in approaching the Financial Corporations for help, since the Corporations want much too unnecessary information from these concerns, with regard to their financial position. Now, when the Financial Corporation can get hold of the assets of the concerns to whom it proposes to give loan, why must it bother very much about their other liabilities? And that is a thing which must be seriously considered. Many industrial concerns in my own place and elsewhere have represented to me that while they are prepared to give very reasonable security to the Financial Corporation giving the loan which they apply for, yet the Financial Corporation wants them to give out complete information about their other financial liabilities. Now, Sir, businessmen do not want to give out all the secrets about their financial position. Why do they insist on that, I for one cannot appreciate.

PROP. G. RANGA (Andhra): Otherwise, they go bankrupt.

SHRI JASPAT ROY KAPOOR: Even if they go bankrupt, the Financial Corporation does not lose anything. If toe Financial Corporation advances

loan on the security of landed properties, they are fixed assets, they are immovable assets. All these are secure. The loan is absolutely secure. Beyond that why should they try to interfere with the other financial transactions of the party? Even if they go bankrupt, as my hon. friend, Mr. Ranga, says, they have nothing to lose. They can easily fall back upon the fixed securities which they have with them. I will even go to the length of submitting that if the real object of the Financial Corporations is—which surely is I am glad to note—(*Time bell rings*), to help small-scale concerns and encourage the growth of industry, they must be prepared to undertake a certain amount of risk. If they want always to be very cocksure about realising their entire money and interest and all that, they will not have very much of a success in their endeavour. They must be prepared to run a certain amount of risk.

That is all that I have got to submit and I will close by repeating that the Government should see to it and the Reserve Bank should see to it—because they are now going to have a good deal of supervision over these financial concerns—that these Financial Corporations do not unnecessarily insist on information about the financial position of the party being given to them.

Lastly, they must also not charge such high rate of interest as they have been charging so far. They must also see to it that small-scale industries, particularly cottage industries, are specially helped as we want to help them. Surely they cannot always offer landed property as security.

PROP. G. RANGA: I welcome this Bill and I wish to congratulate my friend, the Deputy Minister, upon this very good opportunity he has had to make his debut as the mover of the Bill on a very good and auspicious occasion when we are all in agreement with the main objects of this Bill. Sir, it is most essential that these Financial Corporations should consider themselves not merely as Financial Corporations but also as friend, philosopher and guide of each one of these industrial enterprises which have to be helped by them. Unfortunately till now they have been looking upon themselves more or less as bankers and laying special stress, as my hon. friend Mr. Jaspal Roy Kapoor has said, upon what is known as security and safety of their

capital, in spite of that, in the experience of the Madras Government there were many occasions when the State Government lent money to concerns which later on came to grief, not because they were not very careful about security but because they did not examine how those industrial concerns were being managed by those people who were placed in charge of them. That is exactly the reason why I am anxious that these Corporations should take upon themselves the responsibility of not only guiding these people who are in charge of these industrial enterprises but also helping them in every possible manner. For instance, Sir, I have to deal with the officers in charge of different departments of Government in the State as well as at the Centre and then try and get their co-operation in order to carry on their own industrial concerns has come to be such a difficult job, such a specialised job, that many of the industrial concerns, especially of small dimensions, of small capital, are finding it almost impossible to deal with it. That is why I am anxious that these Financial Corporations should also consider themselves to be the trouble-shooters and go to the rescue of these people in order to intercede between them and these various departments of the Government at the Centre and the States and help them in every possible manner to get all round and enthusiastic co-operation from the Government officials.

Then, Sir, I am very glad indeed that this particular provision has been included in this Bill that money would be advanced to these industrial concerns so long as scheduled banks, co-operatives and such other concerns are prepared to give guarantee for the money that would be advanced to them. This is going one step further than they had done in the past. But even this would not be enough and would be found to be inadequate unless, as I have indicated, the Financial Corporations would begin to do this work in the new spirit. I am also glad that the Financial Corporations are going to be entrusted with the task of acting as agents of the Central Financial Organisations that the Government of India have established in the recent past. It is only in this way that it would become possible for the Central Government to ensure that the money they would be lending to various industrial concerns in the States would be put to

the best possible use. In this way also the State Financial Corporations will try to be a kind of a liaison between those industrial concerns of the States and the Union Government and the Central All-India Financial Corporations and organisations. I sincerely hope that this function would also be exercised by these Financial Corporations not merely as mentors, not merely as a kind of supervisors and dictators from the top but as friends, philosophers and guides.

Last but not one, it is most essential that we should avoid unnecessary interference. It is easy to say so but it is very difficult really to draw the line where, unnecessary interference comes in and where necessary supervision and direction would come in. But that is exactly where judgment is needed, and it is most essential that those who would be placed in charge of the Financial Corporations should be specially exhorted to use their judgment as far as it is possible more in favour of the industrial concerns than in favour of the financial mentors.

Lastly, it is essential also to avoid politics in the management of these Financial Corporations, and I am glad that my hon. friend has already anticipated this and, therefore, has made some provision in the Bill itself. It is difficult for me here and now to make any kind of concrete suggestion as to how to avoid the incursion of factious politics at the State level or any other level, but nevertheless it is most essential that the Union Government should bestow their thought on this particular side of the question and then devise ways and means by which—not so much through rules and regulations but by the advice that they would be giving to their own officers as well as the State Financial Corporations—factious politics is avoided. It cannot be avoided merely by making some provision, which they have sought to make, for the appointment of Directors. It can be avoided by the spirit in which this Act will come to be enforced, and I sincerely hope that the State Governments as well as the Union Government will do their best to see that every possible encouragement is given not only to those who are already there in the industries and are functioning as entrepreneurs but also to all those who come out of the colleges and who would like to enter into industry and

[Prof. G. Ranga.]

in that way help the development not so much of the large-scale industries but the medium-scale industries in the private sector.

SHRI C. P. PARIKH (Bombay): Sir, let us see how these loans are granted. What are the conditions? The financial soundness of the concern, the technical soundness of the concern, the adequacy of securities, the national importance of the concern—all these are the conditions on which loans can be granted and they are laid down in the Act. If we want to give loans on terms and conditions under which reasonable and calculable risk can be taken, by which 20 per cent, of the loans will fall flat, then I think

SHRI RAJENDRA PRATAP SINHA: What of that?

SHRI C. P. PARIKH: Then you will have to change that Act.

SHRI RAJENDRA PRATAP SINHA: The hon. Member wants to have it as a close preserve for people like him.

SHRI C. P. PARIKH: Therefore, the securities have to be given. The difficulties of the small and medium-scale industries have no doubt been all of their own. They have machinery which can be removed from one place to another and therefore no guarantee can be there for non-removal of such machinery. These are the conditions prevailing. Therefore, if we want to give loans in a reasonable manner and in a way in which these industries can be supported, I think, Sir, we shall have to change many of the provisions of the Act itself. We are thinking of loans to cottage industries, we are thinking of crop loans in agriculture—these we cannot give under the policy laid down. Medium and long term loans which are envisaged here cannot be given under the present conditions. Therefore, the main consideration is if we want to give these loans, we should look into the question of how much money the State Corporations are prepared to lose. There are banks who are contributing to the share capital, there are Insurance Companies who are contributing to the share capital. When this contribution was made by those concerns and institutions, naturally financial conditions in the Act were I

there. It is difficult and improper now to change the Act.

SHRI RAJENDRA PRATAP SINHA: It is guaranteed by the State.

SHRI C. P. PARIKH: But 3 per cent, interest is guaranteed by the State and it is borrowing at 4 per cent. The rate of interest given to organised industry at present is 5 per cent. Therefore, when this rate of 6 per cent, is given, I do not consider it high. The only thing is that if they want to charge (lower rate, then the State Corporations will not be able to function in the way this Act wants them. We shall have to change the entire basis in that case.

Then, Sir, another important thing is with regard to the disbursement of loans and scrutiny of loans. This cannot be done, in my opinion, by the State Financial Corporations as they are, because the area is very large, and these things cannot be looked into properly by them. Therefore my suggestion is that the branches of the State Bank should be authorised to go into the applications and report to the State Financial Corporations. In that way the work will be easier. A quarter per cent, commission may be given to the branch offices of the State Bank for the purpose of seeing into title deeds or other things. Only then there will be no delay in the matter of disbursement. These measures ought to be taken if we really want the State Corporations to be effective. Otherwise, Sir, the way in which we are doing things now will lead to no good results. We shall have to change the entire structure in the interest of the small and medium-scale industries. If we do that, then only we will be able to achieve the object that we have in view.

SHRI KISHEN CHAND (Hyderabad): Mr. Deputy Chairman, this Bill is an amending Bill. It seeks to amend the various sections contained in the previous Act in order to make the Financial Corporations better and more efficiently managed.

Sir, in so far as it is amending the previous Act with a view to improve the internal administration and to have a better control and inspection by the Reserve Bank, I have no objection. I welcome it. And I am sure that by having these additional clauses the State Financial Corporations will be run

on a sounder basis, and the danger of losing money will be reduced. That is one aspect of it. But the real and more important aspect of it is different. We have to see what service it is rendering to the industries, and whether it is really helping in the expansion and better organisation of the industries of our country or not. So, these are the two main aspects. First of all I would confine myself to the first aspect.

Sir, there is a mention here about the Joint Financial Corporation. It was all right when we had Part C States and when possibly Bombay was going to become a Centrally-administered area. Now there will be only Delhi and Himachal Pradesh. Manipur and Tripura have hardly any industries, and probably they will not want any Financial Corporations to run there. So, it is a question of Delhi only. When Delhi is a seat of Central Government it is hardly necessary to have a Joint Financial Corporation with some other State. We have got the Industrial Finance Corporation and we can have a second wing, a smaller whig of it, which can lend out monies to the medium-scale industries. Why should we have this duplication of agencies? If we have more and more agencies for performing the same function, the cost naturally goes up. So, I think under the new set-up there is hardly any need of a Joint Financial Corporation. Sir, if you read the Memorandum attached to the Bill as it was introduced in the Lok Sabha, there the main mention is made of Bombay.

PROF. G. RANGA: There is Himachal Pradesh as well.

SHRI KISHEN CHAND: Well, in that case, justification can also be found for the Laccadive and Andaman islands. We have to go to the spirit of the Bill, and we have to find whether there is any justification for having Joint Financial Corporations. When we are going to have only 14 States in the whole of India under the new set-up, I do not see that any purpose will be served by having these Joint Financial Corporations. As far as Delhi or Himachal Pradesh is concerned, I submit that it would be much better for the Industrial Finance Corporation to have a wing for advancing loans up to Rs. 10 lakhs.

Then, Sir, there is the question of inspection by the Reserve Bank. It is 3—26 R. S./56

very good. I welcome it. It is perfectly all right if there is going to be a regular inspection done by the Reserve Bank, because that would lead to the better management of these Financial Corporations.

Then, Sir, there is this clause 17 which seeks to insert the new provisions, for example, 32A, 32B, 32C, 32D, 32E and 32F, for the management of the concerns which are taken over by the State Financial Corporations because they are not able to run properly and they are not able to repay the loans. That is the good side of this amending Bill. But my main criticism is against the original State Financial Corporations Bill. Sir, these Corporations have been in operation for the last five years. I would like to know how far they have helped in the growth of our industries.

THE DEPUTY MINISTER FOR FINANCE (SHRI B. R. BHAGAT) : They are not in operation for the last five years. The first one came into operation in 1953.

SHRI KISHEN CHAND: All right, for the last three years. I do not want to discuss about the exact length of time. How far they have been able to help the industries is a thing to be examined. Sir, the first objection is that the investigations are too prolonged and the cost of the investigations is very heavy. That is charge number one against the Financial Corporations. The industries have to give a detailed explanation with regard to the expansion programme etc. Normally the new machinery is to be purchased through the State Financial Corporations. Orders are placed directly, but the payment is made by the State Financial Corporations directly.....

SHRI B. R. BHAGAT: No, no.

SHRI KISHEN CHAND: I know about the Hyderabad State Financial Corporation. In one case a cheque was split up into various parts. One part was for the construction work. That was given to the person who had applied for it. But if he was purchasing any foreign machinery, that machinery was directly paid for by the State Financial Corporation. Sir, the small and cottage industries can get loans from the Government. There is a separate fund for this purpose. The big industries can

[Shri Kishen Chand.] get loans from the Industrial Finance Corporation. *(Time bell rings.)* I request that I may be given another two minutes to finish.

Sir, the hon. Minister says that if the scheduled bank or the co-operative bank can guarantee the loan, then only it will be advanced. Well, if mat bank can give a guarantee, the party concerned would borrow from the bank. I therefore submit, that there should be a bold policy in these matters. We should try to encourage the medium-scale industries whose capital requirements are about Rs. 2 lakhs. And naturally when the capital requirement is Rs. 2 lakhs, the fixed asset will be about Rs. 4 lakhs to Rs. 5 lakhs. In the case of such industries the Government and the State Financial Corporations should not be very rigid and require so much security that the industries may not be able to secure the guarantee; as otherwise they will be deprived of loan benefit from the State Financial Corporations.

Further, Sir, with regard to the rate of interest, I submit that to the co-operative societies the Reserve Bank is advancing at the rate of 11 per cent. For the warehousing societies and other things the Government is advancing at the rate of 3 per cent. Why should the industries be burdened with 6 per cent., of which only half a per cent, is given as rebate? It means that the net interest charged is at the rate of 6 per cent. I suggest, Sir, that the rate of interest should not in any case exceed 3 per cent, to 4 per cent. *(Time bell rings.)* Thank you, Sir.

SHRI H. C. DASAPPA (Mysore): Mr. Deputy Chairman, I rise to enthusiastically welcome this measure, because I consider that it fulfils a very great need of the country today. It all depends upon how the State Governments view this matter and what support they lend to these Corporations, and it also depends upon how the State Financial Corporations function. It is just possible, Sir, that by adopting a progressive policy these Financial Corporations can play a wonderful role in building up the economy of our country. I was rather surprised at the remarks made by Mr. Parikh who insisted that these tests must be very rigorous in order to see that the concerns which are in need of help get the help.

1 p. M.

Sir, when a concern is working well and is sound, it may not need any help from the State Financial Corporations. They will be able to raise the money elsewhere. It is only where the other banking institutions are unwilling to help these institutions that the State Financial Corporations should come in not merely with a view to treating it as a purely business concern but with a view to building the economy of the country as a whole. I do not want to argue this point further, but you are aware how certain concerns which were known as lame ducks, by the timely support of the State Governments—in those days there were no State Financial Corporations—are now doing very well. I can give you the instance of REMCO, the Radio Electric Manufacturing Company. It was sinking; the company with which it was collaborating was itself in a bad way. The Government stepped in, and it is today for the first time declaring dividends and is in a very good position. The same thing happened in the case of the Krishna Rajendra Mill, and it has been declaring 16 per cent. dividends regularly for the past so many years. I can give you many instances of this kind. So, I consider that a liberal exercise of the policy of State aid through the State Financial Corporations is the only means of building the economy of the country. There is no doubt about it. My submission is that the Finance Ministry here as well as the Central Finance Corporation as well as the State Financial Corporations should view this matter very liberally and help these concerns.

I see that Mr. Karayalar asked why provisions with regard to the taking over of administration should be incorporated in the Bill itself, while it was possible to provide for them in the rules. I am afraid we are interfering with the rights of contract, agreement and so on, and unless the Bill itself provides for it, I am afraid it will not be possible for the Corporation to take over the management of the concern. Viewed from all these points of view, this is a very very helpful measure, and I congratulate the hon. Minister for introducing it.

SHRI B. R. BHAGAT: Mr. Deputy Chairman, I am grateful to the hon. Members who have given their benevolent and informed support to this

measure, while I am very appreciative of the criticism which they have offered in a spirit of positive helpfulness.

Although this is an amending measure, the subject being of very vital importance, it is but natural that hon. Members should have gone beyond the scope of this and dealt elaborately with the general question of financing and development of small and medium-scale industries. I would like to deal with the general point a little later but just now I will dispose of some of the specific points that have been raised.

The first is that of the question of periodic inspection. The point has been made that it should be provided in this Bill that the Reserve Bank will make periodic inspections of the State Financial Corporations. I think that in these matters it is better to leave the law more flexible. But I may state here right now that it is our intention that there should be regular inspection, almost annual inspection, by the Reserve Bank of the working of these State Financial Corporations.

I would now like to pass on to another point, which is born of a slight misunderstanding, about short-term borrowing in one of the amendments. I must say that it is not for loaning out on a long-term basis. I know that borrowing short and lending long is a dangerous practice in all commercial activities. I said in my speech that it was mainly to meet temporary demands of the State Financial Corporations at the earlier stages, or when there is some emergency that they would resort to short-term borrowing. So, it has nothing to do with the lending or giving of loans on a long-term or medium-term basis. I think that with this explanation the hon. Member will be satisfied about it.

Then, another point was made about these Joint Financial Corporations, and the hon. Member who initiated the debate, said that there should be provision for dissolution, in case there is no necessity. In the same strain and taking the logic still further, the hon. Member who spoke last but one said that in view of the State Reorganisation when there will be no Part C States, there was no need for any Joint Financial Corporation. The point is this: We felt that in States like Delhi, Hima-chal Pradesh, Punjab, PEPSU, etc.—Delhi and Himachal Pradesh would

still be there; the first has a small area and the second a large area but very much backward economically and otherwise,—they cannot provide for independent Financial Corporations. So, it was thought that there was need for such Joint Financial Corporations. I think the point made by Mr. Sinha was very pertinent, because if there is no need, nothing can stop us from coming forward with an amending Bill or from taking some steps to meet the situation.

Then, some hon. Members made reference to the interest rates. It was said that the interest rates charged are very high. The interest rate is not an independent factor. It is linked with the other rates, the economic situation, the structure of the capital market, the availability of resources, and the demands of the other competing elements. In view of these, the rates of interest charged by the State Financial Corporations are not very unreasonable. It is difficult to provide for a uniform rate of interest, because local conditions in the various States differ. But we see that the rate of interest was more or less round about 6 per cent. The most common rate of interest is 6 per cent, and is in operation in eight States. In some States it is 5½ per cent., for example in U. P. It is 7 per cent, in Assam. These rates are not excessive in the general conditions of the money market. The interest rates must be such as would cover the payment of a minimum guaranteed dividend, the creation of reserves of various kinds and taxation, in addition to working expenses.

The House will note that the State Governments themselves are borrowing, the State loans are being floated at 4 per cent, and the rates of interest on similar types of loans in other countries particularly in South East Asia is considerably higher. It may be of interest to Members here to know what is the prevailing rate of interest in Japan which has developed its industry. The rate of interest is very high. The normal rate is 10 per cent, and the long-term rate of interest is 13 to 14 per cent. But the tempo of activity is such that they have been able to develop themselves even with that higher rate of interest.

SHRIJASPAT ROY KAPOOR: Has that been the prevailing rate of interest in Japan ever since, even when it had not developed its industries?

SHRI B. R. BHAGAT: He will find that it is so for the last so many years, particularly after the war. I don't have the figures for the period before the war but Japan is a country of scarce capital resources. The capital is not very much in plenty there and therefore the general tendency has been for a higher rate of interest and that is why the structure of banking or credit institution has been different. They have found it necessary to develop the industrial banking.....

SHRI JASPAT ROY KAPOOR: The availability of capital there being not much, it is a different situation but here we have Rs. 10 crores lying idle.

SHRI B. R. BHAGAT: That is what I was underlining that the conditions are different in the different countries. The hon. friend who just intervened, spoke about the delay in the disbursement of sanctioned loans and he said that these are due to rigid conditions imposed by the State Financial Corporations. That may or may not be true, I cannot say. But I must emphasise here that it is not always due to the rigidity or the conditions imposed by the Corporation that there is a delay in disbursement.

SHRI JASPAT ROY KAPOOR: I did not say that.. I only wanted to know

MR. DEPUTY CHAIRMAN: Let him go on.

SHRI B. R. BHAGAT: The delay has been in many cases or in a large number of cases due to the fact that the borrowing concerns are anxious to draw the loans as and when they require them and they don't draw immediately the loan is sanctioned because they want to draw it only when they need so that they may save some interest. So sometimes between the date of sanction and the date of drawing there may be a gap. Some of the Financial Corporations like that of U. P. have fixed a time-limit, say of six months, and have said that if the loan was not drawn within that period, it would lapse. This is one of the important reasons why there has been delay. Similarly the borrower generally delays in preliminary actions required to implement the scheme such as buying the machinery or obtaining the licence. Somehow quite a lot of time is taken in these preliminaries and these are the reasons

why there is delay in disbursement of loans. It is not only so in this case but if you see the loans of other international institutions like the International Bank, you will find that the delay is due to the delay made by the borrowing parties *i.e.* the borrowing countries. That is why they put a commitment charge of half per cent, or so. If within a particular date the loan was not drawn, this charge came into operation. So all the Corporations are interested that if they authorise a loan, it should lie drawn at an early date. I think the fault does not lie so much at the door of the Corporation as on the other side.

This leads me on to one or two general points which I would like to discuss particularly the one important point made by my hon. friend, Shri Himatsingka, about the working capital. He said that lack of working capital was a very great handicap for the development of small and medium-scale industries; that there is a very great handicap for their development. But I must point out that these institutions are only to cater for the medium and long-term needs of finances of these although I think under the law it is provided that out of the total loan sanctioned, say if it is for Rs. 40 lakhs according to their terms, they can, if the other conditions are satisfactory and if they are a going concern, and if for want of some working capital their expansion may be impeded, they may draw Rs. 30 lakhs or Rs. 35 lakhs for fixed or block capital and 5 lakhs or part of it for working capital. Nothing prevents it but it must be realized that these institutions do not cater for the working capital and I may point out that the hon. Member may care to read the report of the second Plan which deals with the financing of these small and medium-scale industries; on page 4⁹ they say that they realize that "to a very limited extent medium and long-term finance in the beginning should be provided by State Financial Corporations," but they underline that there can be no doubt that "normal banking and institutional agencies will have to be utilized far more than at present if the credit needs of the village and small-scale industries are to be met in a large measure." I wanted to point out that it is not that these institutions are enough to develop industries or meet the financial requirements of small and medium-scale industries. We

shall have to develop other financial institutions. The commercial banking shall also have to be geared up to meet their requirements for liquid capital. We should not forget that. One important point made by the hon. friend who initiated the debate,—and he dilated on that for long and he brought an informed mind to bear upon it;—was that the resources of these Financial Corporations were not fully utilized and he quoted the institutions in Japan and similar institutions of U.K. He said that resources of 94 per cent, of the paid-up capital were utilized in U.K. or several times the paid-up capital was utilized in Japan. He said that about 3,500 times the capital was utilized there. He agrees that the period of their activity was quite long. In some cases it was 15 years, in others it was 10 years but the time given to these institutions is very short—only three years in some cases, 2 years in others and one year in a few. But if you see, just for comparison I am using that figure, the disbursement of loans made by the Industrial Finance Corporation from 1948 to this time. The paid-up capital is Rs. 5 crores, amount of loans sanctioned up to date is Rs. 45 crores — it is nine times at least. Amount of loans disbursed to-date—that has been sanctioned—is Rs. 18 crores, that is more than 3 times the paid-up capital. I appreciate the point made by him about the steady improvements made by these Corporations. I have no doubt and it is for this purpose, to improve the structure of these Corporations, that we went into this matter and we have brought this amending Bill which has received the general support and blessings of this House that with these things it is not impossible that we will achieve a good record and when we come next time to the House, the House will say that during this period, with these amendments and improvements and renovations and innovations made in it, the State Financial Corporations have not only worked well but have gone a long way in developing or meeting the financial requirements of the small and medium-scale industries. Sir, with these words, I move.

MR. DEPUTY CHAIRMAN: The question is:

"That the Bill further to amend the State Financial Corporations Act, 1951, as passed by the Lok Sabha, be taken into consideration." The motion was adopted.

MR. DEPUTY CHAIRMAN: We will take up clause by clause consideration of the Bill.

Clauses 2 to 25 were added to the Bill.

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

SHRI B. R. BHAGAT: Sir I move:

"That the Bill be passed."

MR. DEPUTY CHAIRMAN: The question is:

"That the Bill be passed." The motion was adopted.

THE LOK SAHAYAK SENA BILL, 1956

THE MINISTER FOR DEFENCE (DR. K. N. KATJU): Mr. Deputy Chairman, I beg to move:

"That the Bill to provide for the constitution of a Lok Sahayak Sena for imparting military training to citizens of India, as passed by the Lok Sabha, be taken into consideration."

Sir, this Bill has met with such general approval throughout the country that it does not stand in need of any long introduction from me. The Lok Sahayak Sena has been functioning during the last eighteen months. It has aroused great enthusiasm. It is now public knowledge that our aim for the present is to train a lakh of people every year. The scheme is for five years and we mean to do this by means of holding some 500 camps in a year. We use ten months of the year, avoiding the monsoon seasons. And we hold these camps in different parts of India, in practically every State. One camp was held in Jammu and Kashmir in the heights of Leh and we have also camps down south, everywhere, with huge areas which are generally close to community welfare project centres. Sometimes the State Governments have represented and emphasised that in order to rouse public enthusiasm and to awaken public consciousness we should hold these camps in other centres also. In these eighteen months somewhere about a lakh and fifty thousand people have been trained. The response has been very fine and everyone who is