

11.11 ½ hrs.

STATEMENT BY THE MINISTER

RE : Restructuring package of SIDBI for
State Financial Corporations

Title: Regarding restructuring package of SIDBI for State Financial Corporations.

MR. SPEAKER: Shri Anandrao Vithoba Adsul. You can lay the statement on the Table.

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE AND COMPANY AFFAIRS (SHRI ANANDRAO VITHOBA ADSUL): Sir, on behalf of Shri Jaswant Singh, I lay a statement regarding 'Reconstructing Package of SIDBI for State Financial Corporations' on the Table.

*The Small Scale Sector accounts for almost 95 per cent of the industrial units of the country, providing about 180 lakh jobs and contributing around 35 per cent of the country's exports. It thus performs a vital role in our economic development.

In order to accelerate the pace of industrialisation in the small and medium scale sector the State Financial Corporations were set up under the SFCs Act, 1951, as State Government entities. The Small Industries Development Bank of India, (SIDBI) provided refinance support to all these 18 SFCs in the country. Over the years, entrepreneurs in the Small Scale Sector have found in SFCs a major source of financial support. Unfortunately, on account of a variety of reasons the financial health of SFCs has over the years, declined. In consequence, their Non-Performing Assets now stand at around 60 per cent and the net worth of most of them has been eroded. In this background, Government had set up the Gupta Committee to look into the functioning of SFCs and to make recommendations for their restructuring and revitalisation. This Committee had, *inter alia*, suggested that the Central Government, RBI, SIDBI, and IDBI contribute Rs.3600 crore for the recapitalisation of SIDBI/SFCs. These agencies are unfortunately, not in a position to provide this financial support to the SFCs, they have their own financial constraints.

The Government, concerned about credit support availability to the SSI Sector, particularly in light of the declining health of the SFCs, and representations received from States, initiated wide ranging discussions on the revival of credit to this sector.

After appropriate consultations, Government and SIDBI have now decided to provide loans to the SSI Sector at very competitive rates. I am happy to now announce this package. The salient features of it are:-

- a) Interest on all outstanding loans of SFCs will be reduced by 2 per cent;
- b) a rebate of 2 per cent in rate of interest will be provided by SIDBI for all future refinance; and
- c) a moratorium of one year shall be given for repayment of existing dues.

These measures will cost the SIDBI about Rs.900 crore. Nevertheless, in view of the importance of the SSI sector and the need for helping the Small Scale entrepreneur, the Central Government has advised SIDBI to go ahead with this revitalisation package. The SFCs have been advised to bring down their NPAs to less than 10 per cent and to also downsize.

To further facilitate an implementation of this restructuring package, the Central Government have decided to defer payment of all interest by SIDBI on SIDBI bonds for a period of 10 years. This amounts to Rs.174 crore per annum or a total of Rs.1740 crore.

I am confident that full cooperation of State Governments would be available in an early implementation of this package and the signing of MoUs with SIDBI to improve the functioning of SFCs.
