

The State Financial Corporations Act 1951



THE STATE FINANCIAL CORPORATIONS ACT, 1951

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THE STATE FINANCIAL CORPORATIONS ACT, 1951

INTRODUCTION

A Central Industrial Finance Corporation was set up under the Industrial Finance Corporations Act, 1948 in order to provide medium and long term credit to industrial undertakings which fall outside the normal activities of Commercial Banks. The State Governments expressed their desire that similar Corporations be set up in States to supplement the work of the Industrial Finance Corporation. State Government also expressed that the State Corporations be established under special statute in order to make it possible to incorporate in the Constitution necessary provisions in regard to majority control by the Government, guaranteed by the State Government in regard to the payment of principal. In order to implement the views expressed by the State Governments the State Financial Corporation Bill was introduced in the Parliament.

STATEMENT OF OBJECTS AND REASONS

In order to provide medium and long term credit to industrial undertakings, which fall outside the normal activities of Commercial Banks, a Central Industrial Finance Corporation was set up under the Industrial Finance Corporation Act, 1948 (XV of 1948). The State Governments wish that similar Corporations should also be set up in the States to supplement the work of the Industrial Finance Corporation. The intention is that the State Corporations will confine their activities to financing medium and small scale industrial and will, as far as possible, consider only such cases as are outside the scope of the Industrial Finance Corporation. The State Governments also consider that the State Corporations should be established under a special Statute in order to make it possible to incorporate in the Constitution necessary provisions in regard to majority control by Government, guaranteed by the State Government in regard to the repayment of principal, and payment of a minimum rate of dividend on the shares, restriction on distribution of profits and special powers for the enforcement of its claims and recovery of dues. Since the incorporation, regulation and winding up of such Corporations fall within the purview of Parliament *vide* Entry No.43 of the Union List—The State Governments have requested the Government of India to enact the necessary enabling legislation, which is sought to be effected by this Bill.

The main features of the Bill are as follows:—

- (i) The Bill provides that the State Government may, by notification in the Official Gazette, establish a Financial Corporation for the State.
- (ii) The share capital shall be fixed by the State Government but shall not exceed Rs. 2 crores. The issue of the shares to the public will be limited to 25 per cent, of the share capital and the rest will be held by the State Government, the Reserve Bank, Scheduled Banks, Insurance Companies, Investment Trusts, Co-operative Banks and other Financial Institutions.
- (iii) Shares of the Corporation will be guaranteed by the State Government as to the re-payment of principal and the payment of a minimum dividend to be prescribed in consultation with the Central Government.

- (iv) The Corporation will be authorised to issue bonds and debentures for amounts which together with the contingent liabilities of the Corporation shall not exceed five-times the amount of the paid-up share capital and the reserve fund of the Corporation. These bonds and debentures will be guaranteed as to the payment of the principal and the payment of interest at such rate as may be fixed by the State Government.
- (v) The Corporation may accept deposits from the public repayable after not less than five years, subject to the maximum not exceeding the paid-up capital.
- (vi) The Corporation will be managed by a Board consisting of a majority of Directors nominated by the State Government, the Reserve Bank and the Industrial Finance Corporation of India.
- (vii) The Corporation will be authorised to make long-term loans to industrial concerns and to guarantee loans raised by industrial concerns which are repayable within a period of not exceeding 25 years. The Corporation will be further authorised to underwrite the issue of stocks, shares, bonds or debentures by industrial concerns, subject to the provision that the Corporation will be required to dispose of any shares, *etc.*, acquired by it in fulfilment of its underwriting liability within a period of 7 years.
- (viii) Until a reserve fund is created equal to the paid-up share capital of the Corporation and until the State Government has been repaid all amounts paid by them, if any, in fulfilment of the guarantee liability, the rate of dividend shall not exceed the rate guaranteed by the State Government. Under no circumstances shall the dividend exceed 5 per cent, per annum and surplus profits will be re-payable to the State Government.
- (ix) The Corporation will have special privileges in the matter of enforcement of its claims against borrowers.

ACT 63 OF 1951

The State Financial Corporation Bill having been passed by both the Houses of Parliament received the assent of the President on 31st October, 1951. It came on the Statute Book as THE STATE FINANCIAL CORPORATIONS ACT, 1951 (63 OF 1951).

LIST OF AMENDING ACTS

1. The Repealing and Amending Act, 1952 (48 of 1952).
2. The Industrial and State Financial Corporations (Amendment) Act, 1955 (28 of 1955).
3. The State Financial Corporations (Amendment) Act, 1956 (56 of 1956).
4. The Jammu and Kashmir (Extension of Laws) Act, 1956 (62 of 1956).
5. The State Financial Corporations (Amendment) Act, 1962 (6 of 1962).
6. The State Financial Corporations (Amendment) Act, 1972 (77 of 1972).

7. The Public Financial Institutions Laws (Amendment) Act, 1975 (52 of 1975).
8. The Public Financial Institutions (Obligation as to Fidelity and Secrecy) Act, 1983 (48 of 1983).
9. The State Financial Corporations (Amendment) Act, 1985 (43 of 1985).
10. The Delegated Legislation Provisions (Amendment) Act, 1985 (4 of 1986).
11. The State Financial Corporations (Amendment) Act, 2000 (39 of 2000).

**THE STATE FINANCIAL CORPORATIONS
ACT, 1951¹**

(63 of 1951)

[31st October, 1951]

An Act to provide for the establishment of State Financial Corporations.

BE it enacted by Parliament as follows:—

CHAPTER I

PRELIMINARY

1. Short title, extent and commencement.—(1) This Act may be called the State Financial Corporations Act, 1951.

(2) It extends to the whole of India ²[* * *].

(3) It shall come into force in any State on such date³ as the Central Government may, by notification in the Official Gazette, appoint.

2. Definitions.—In this Act, unless the context otherwise requires,—

(a) "Board" means the Board of directors of the Financial Corporation;

⁴[(aa) "Development Bank" means the Industrial Development Bank of India established under the Industrial Development Bank of India Act, 1964 (18 of 1964);]

⁵[(b) "Financial Corporation" means a Financial Corporation established under section 3 and includes a Joint Financial Corporation established under section 3A;]

⁶[(c) "industrial concern" means any concern engaged or to be engaged in—

(i) the manufacture, preservation or processing of goods;

⁷[(ii) mining or development of mines;]

(iii) the hotel industry:

(iv) the transport of passengers or goods by road or by water or by air "[or by ropeway or by lift];

1. This Act has been extended to Dadra and Nagar Haveli by Reg. 6 of 1963, sec. 2 and Sch. I; to Pondicherry by Reg. 7 of 1963, sec. 3 and Sch. I; to Goa, Daman and Diu by Reg. 11 of 1963, sec. 3 and Sch. and to the State of Sikkim on 24-10-1975, vide Notification No. S.O. 615(E), dated 23rd October, 1975.

2. The words "except the State of Jammu and Kashmir" omitted by Act 62 of 1956, sec. 2 and Sch. (w.e.f. 1-11-1956).

3. Came into force on 1-8-1952 (in the whole of India except the State of Jammu and Kashmir) see Notification No. S.R.O. 1317, dated the 28th July, 1952, Gazette of India, 1952, Pt. II, Sec. 3, p.1163.

4. Ins. by Act 77 of 1972, sec. 2 (w.e.f. 30-12-1972).

5. Subs. by Act 56 of 1956, sec. 2, for clause (b) (w.e.f. 1-10-1956).

6. Subs. by Act 77 of 1972, sec. 2, for clause (c) (w.e.f. 30-12-1972).

7. Subs. by Act 43 of 1985, sec. 2, for sub-clause (ii) (w.e.f. 21-8-1985).

8. Ins. by Act 43 of 1985, sec. 2 (w.e.f. 21-8-1985).

- (v) the generation or distribution of electricity or any other form of power;
- (vi) the maintenance, repair, testing or servicing of machinery of any description or vehicles or vessels or motor boats or trailers or tractors;
- (vii) assembling, repairing or packing any article with the aid of machinery or power;
- ¹[(viii) the setting up or development of an industrial area or industrial estate;]
- (ix) fishing or providing shore facilities for fishing or maintenance thereof;
²[* * *].
- ³[(x) providing weight bridge facilities;
- ⁴[(xi) providing engineering, technical, financial, management, marketing or other services or facilities for industry;
- (xii) providing medical, health or other allied, services;
- (xiii) providing software or hardware services relating to information technology, telecommunications or electronics including satellite linkage and audio or visual cable communication;]]
- ³[(xiv) setting up or development of tourism related facilities including amusement parks, convention centres, restaurants, travel and transport (including those at airports), tourist service agencies and guidance and counselling services to the tourists;
- (xv) construction;
- (xvi) development, maintenance and construction of roads;
- (xvii) providing commercial complex facilities and community centres including conference halls;
- (xviii) floriculture;
- (xix) tissue culture, fish culture, poultry farming, breeding and hatcheries;
- (xx) Service industry, such as altering, ornamenting, polishing, finishing, oiling, washing, cleaning or otherwise treating or adapting any article or substance with a view to its use, sale, transport, delivery or disposal;
- (xxi) research and development of any concept, technology, design, process or product, whether in relation to any of the matters aforesaid, including any activities approved by the Small Industries Bank; or
- (xxii) such other activity as may be approved by the Small Industries Bank;]

Explanation .,—The expression "processing of goods" includes any art or process for producing, preparing or making an article by subjecting any material to a manual, mechanical, chemical, electrical or any other like operation.]

1. Subs, by Act 43 of 1985, sec. 2, for sub-clause (viii) (w.e.f. 21-8-1985).
2. The word "or" omitted by Act 43 of 1985, sec. 2 (w.e.f. 21-8-1985).
3. Subs, by Act 39 of 2000, sec. 2, for clauses (x) to (xiii) (w.e.f. 5-9-2000).
4. Clauses (xi) to (xiii) ins. by Act 43 of 1985, sec. 2 (w.e.f. 21-8-1985) and subs, by Act 39 of 2000. "sec. 2 (w.e.f. 5-9-2000).
5. *Explanation* renumbered as *Explanation 1* by Act 43 of 1985, sec. 2 (w.e.f. 21-8-1985).

¹[*Explanation 2.* — *If any doubt arises as to whether a concern is an industrial concern or not, the same shall be referred to the* ²[Small Industries Bank] *for its decision and the decision of the* ²[Small Industries Bank] *thereon shall be final;*]

- (d) "prescribed" means prescribed by rules or regulations made under this Act;
- ³[(da) Small the expression "public sector bank" means the State Bank of India constituted under the State Bank of India Act, 1955 (23 of 1955), a subsidiary bank as defined in the State Bank of India (Subsidiary Banks) Act, 1959 (38 of 1959), a corresponding new bank constituted under section 3 of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 (5 of 1970) or under section 3 of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980 (40 of 1980);]
- (e) "Reserve Bank" means the Reserve Bank of India constituted under the Reserve Bank of India Act, 1934 (2 of 1934);
- (f) "scheduled bank" means a bank for the time being included in the Second Schedule to the Reserve Bank of India Act, 1934 (2 of 1934);
- ³[(fa) "Small Industries Bank" means the Small Industries Development Bank of India established under sub-section (1) of section 3 of the Small Industries Development Bank of India Act, 1989 (39 of 1989);]
- ⁴[(fb) "State Co-operative Bank" shall have the meaning assigned to it in clause (f) of section 2 of the Reserve Bank of India Act, 1934 (2 of 1934);]
- ⁴[(fc) "State Government", in relation to a Union Territory, means the Administrator thereof;]
- (g) "underwriting" means contract, with or without conditions, to subscribe for stocks, shares, bonds or debentures of an industrial concern with a view to the resale of the whole or any part thereof.

CHAPTER II

INCORPORATION OF STATE FINANCIAL CORPORATIONS, THEIR CAPITAL AND MANAGEMENT

3. Establishment of State Financial Corporations.—(1) The State Government may, by notification in the Official Gazette, establish a Financial Corporation for the State under such name as may be specified in the notification.

1. Ins. by Act 43 of 1985, sec. 2 (w.e.f. 21-8-1985).

2. Subs. by Act 39 of 2000, sec. 2, for "Development Bank" (w.e.f. 5-9-2000).

3. Ins. by Act 39 of 2000, sec. 2 (w.e.f. 5-9-2000).

4. Clauses (ff) and (fff) subs, by Act 6 of 1962, sec. 2, for clause (f) (w.e.f. 16-4-1962) and relettered as clauses (ft) and (fc) by Act 39 of 2000, sec. 2 (w.e.f. 5-9-2000).

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Publisher : Faculty Notes

Author : Panel Of Experts

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