

ROLE OF FINANCIAL INSTITUTIONS IN THE INDUSTRIALISATION OF KERALA

*Thesis submitted to the University of Calicut
for the award of the Degree of*

Doctor of Philosophy in Commerce

Under the Faculty of Commerce and Management Studies

By

JANCY DAVY

Under the supervision of

PROF. (DR.) K. C. VIJAYAKUMAR

Department of Commerce and Management Studies

UNIVERSITY OF CALICUT

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MALAPPURAM - KERALA

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MAY 2004

Prof. (Dr.)K.C.VIJAYAKUMAR

Department of Commerce &
Management Studies
University of Calicut
Calicut University P.O.
Kerala - 673635

CERTIFICATE

This is to certify that this thesis on “ROLE OF FINANCIAL INSTITUTIONS IN THE INDUSTRIALISATION OF KERALA” is an authentic record of the *bona fide* research carried out by Smt. JANCY DAVY under my supervision and guidance and that no part of it has been presented before for the award of any degree, diploma or other similar title.

She is allowed to submit the thesis to the University for evaluation.

Calicut University
28-05-2004.


Dr. K.C.VIJAYAKUMAR

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DECLARATION

I, Jancy Davy, research scholar for Ph.D course of the University of Calicut hereby declare that the thesis titled “ROLE OF FINANCIAL INSTITUTIONS IN THE INDUSTRIALISATION OF KERALA” has been prepared by me under the guidance of Dr. K.C. VIJAYAKUMAR, Professor, Dept. of Commerce and Management Studies, University of Calicut.

I also declare that the dissertation has not been submitted by me fully or partly for the award of any degree, diploma, title or recognition before.

Thrissur
28th May 2004


JANCY DAVY

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6. *Central Library, Cochin University of Science & Technology (CUSAT).*
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8. *Centre for Development Studies Library, Thiruvananthapuram.*
9. *Central Library, University of Kerala and*
10. *Department of Commerce Library, University of Kerala.*

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I, myself, however remain solely responsible for the inadequacies and blemishes that might have crept into the study.


JANCY DAVY

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LIST OF ACRONYMS

AIDB	All India Development Banks
AIFI	All India Financial Institution
CAR	Capital Adequacy Ratio
C-D Ratio	Credit-Deposit Ratio
CMIE	Centre for Monitoring Indian Economy Limited
CII	Confederation of Indian Industry
EBIT	Earnings Before Interest and Taxes
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GIC	General Insurance Corporation of India
GIM	Global Investor Meet
ICICI	The Industrial Credit and Investment Corporation of India Limited
IDBI	Industrial Development Bank of India
IEM	Industrial Entrepreneur Memorandum
IFCI	Industrial Finance Corporation of India Limited
IIP	Index of Industrial Production
IRBI	Industrial Reconstruction Bank of India
ISO	Indian Standards Organisation
KFC	Kerala Financial Corporation
KSIDC	Kerala State Industrial Development Corporation Limited
LIC	Life Insurance Corporation of India
LOI	Letter Of Intents
MoU	Memorandum of Understanding
NABARD	National Bank for Reconstruction and Development
NCAER	National Council for Applied Economic Research
NDP	Net Domestic Product
NEF	National Equity Fund
NPAs	Non-Performing Assets
NRE	Non-Resident External
NRI	Non-Resident Indian
NSDP	Net State Domestic Product

QRs	Quantitative Restrictions
RBI	Reserve Bank of India
RCF	Risk Capital Foundation
RCTC	Risk Capital and Technology Finance Corporation Limited
SARFAESI	Securitisation And Reconstruction of Financial Assets and Enforcement for Security Interest
SBI	State Bank of India
SCB	Scheduled Commercial Bank
SCICI	Shipping Credit and Investment Company India Limited
SDP	State Domestic Product
SFC	State Financial Corporation
SFI	Specialised Financial Institution
SIDBI	Small Industries Development Bank of India
SIDC	State Industrial Development Corporation
SLBC	State Level Bankers' Committee
SLPE	State Level Public Enterprises
SSI	Small Scale Industries
TDICI	Technology Development and Information Company of India Limited
TFCI	Tourism Finance Corporation of India Limited
UTI	Unit Trust of India

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CHAPTER I

INTRODUCTION

Today economic growth is everybody's concern and in such a milieu, growth theory has received particular attention of economists. Economic growth has been defined by Arthur Lewis¹ as transforming a country from a five percent saver to a fifteen percent saver and with equal justice transforming a country from eighty percent farmer to fifteen percent farmer. That means the rest of the population should be engaged in manufacturing, construction, services, etc.

Jawaharlal Nehru, our first prime minister has revealed the fact that only industrialisation would raise the standards of the people substantially and poverty is combated.² Samuel Lurie³ and G. Myrdal⁴ also have brought out the significance of industrialisation in developing an economy. This provides the ground for increasing the base of industries. And transforming the country from agricultural to non-agricultural activities has been the essential part of the development process.

As Harry G. Johnson⁵ observes industrialisation involves the organisation of production through specialisation and division of labour based on the application of technology and replacement of human effort, motivated by the objective of minimising cost per unit and maximising return to the enterprises. Thus industrialisation results in the replacement of crude manpower and even human intelligence by machines.

It is now widely accepted that without industrialisation no country can progress. The success of industrialisation is reckoned from the share of value added from manufacturing sector in total Gross Domestic Product (GDP) of the country. According to Ratnakar Gedam, if the share of manufacturing in GDP exceeds 20 percent, then, such a country is reckoned as industrialised.⁶ The following Table 1.1 reveals the contribution of industries towards the GDP of India and Kerala. The contribution of manufacturing sector towards GDP at All-India level concentrates around 15 percent. As it is not up to 20 percent, India cannot be reckoned as industrialised. When the secondary sector as a whole is considered this contribution is more than 20 percent.

Table 1.1

Contribution of Secondary Sector towards GDP (At Current Prices)

Year	Contribution of Manufacturing Sector (in Percentage) towards GDP		Contribution of Secondary sector (in Percentage) towards GDP	
	All-India	Kerala	All-India	Kerala
1998-99	15.6	11.5	23.9	22.8
1999-2000	15.4	11.2	23.9	21.1
2000-01	15.7	11.0	24.2	21.6
2001-02	15.3	11.3	23.7	22.6

Source: Government of Kerala, State Planning Board, Thiruvananthapuram Economic Review (Various Years).

When the position of Kerala is analysed it can be seen that the contribution of the manufacturing sector is very low (around 11 percent only) when compared with the position of India (15 percent). Again, if the secondary

sector as a whole is considered the position is better. However, it can be concluded that Kerala is industrially backward when compared with the All-India figures.

One of the major weaknesses of the industrial sector of Kerala is the lack of investments. The state of Kerala could not benefit much from the liberalisation policies followed by the Government of India. Very low level of investment made in the industrial sector is an evidence of this. During the period from August 1991 to January 2002, the number of proposals, amount involved, proposed employment and amount of Foreign Direct Investment approved for different states is given in Table 1.2

Table 1.2

Industrial Investment Proposals and Foreign Direct Investment in India of Southern States during the Period from August 1991 to January 2002.

States	IEM+LOI		Proposed Investment		Proposed Employment		Amount of FDI Approved	
	Number	% share	Rs. Crore	% share	Number	% share	Rs.million	% share
Kerala	513	1.1	10509	1.0	85954	1.0	15223	0.6
Tamil Nadu	4569	9.5	67840	6.4	734899	8.5	231002	8.4
Karnataka	1929	4.0	53610	5.1	345970	4.0	212938	7.8
Andhra Pradesh	3321	6.9	116504	10.9	562669	6.5	126779	4.6

Source: Jeromi, P.D., "What Ails Kerala's Economy" in Raj Kapila and Uma Kapila (Ed), *Economic Developments in India*, New Delhi: Academic Foundation, 2003, p. 87.

During the period from August 1991 to January 2002 the share of Kerala in the total Industrial Entrepreneur Memorandum (IEM) and Letter of Intents (LOI) was only 1.1 percent, the share of proposed investment was only 1 percent, the proposed employment was only 1 percent and the amount of FDI approved was only 0.6 percent of the total for India. From Table 1.2 it is clear that Kerala stands nowhere near other southern states. The proportion of central sector investment in Kerala is very low. The state government concentrates and invests more in the infrastructure development.

The only alternative is to encourage private capital initiative to this sector. The financial institutions have to play a greater role in this region.

Industrial development hinges on the ease with which finance is raised for acquiring land and building, plant and machinery and other fixed assets and for purchasing raw materials from farms and mines and the speed with which money is advanced to take finished products to penetrate the market. The need of financial institutions cannot be over emphasized on the ground that they transfer savings from the slow growing sectors to the fast growing sectors, spread the risks and uncertainties by investing money after calculating costs and benefits, mobilise the savings and convert the financial assets of the people into financial debt. The term financial institutions applicable to the industrial sector of India include banking and non-banking financial institutions. The services and schemes offered by these two types of institutions differ to some extent; still they are welcomed by the entrepreneurs since some are complementary in nature.

The industries of Kerala enjoy the assistance and services of both banking and non-banking Financial Institutions. They avail of the assistance from All-India Financial Institutions (AIFI) like Industrial Development Bank of India (IDBI), Industrial Finance Corporation of India Ltd. (IFCI), The Industrial Credit and Investment Corporation of India Ltd. (ICICI), Small Industries Development Bank of India (SIDBI) and National Bank for Reconstruction and Development (NABARD). Two state-level institutions, viz., Kerala Financial Corporation (KFC) and Kerala State Industrial Development Corporation Limited (KSIDC) help our industries. Besides these institutions, we have a network of branches of State Bank of India and its subsidiaries, nationalised banks, private sector banks, foreign banks, regional rural banks and co-operative banks.

The financial institutions play a vital role in the process of industrial development. It lubricates the engine of growth by mobilising savings and extending credit for productive investment. However, in academic literature it has been debated whether financial development precedes industrial development or whether it merely adjusts to the growth of the sector. In developed countries market forces help to evolve financial institutions and instruments which means industrial development or economic development precedes financial development. But in the case of developing economies they have to make deliberate efforts to promote and nurture institutions. India is no exception. Thus when the State and Central Governments' direct investments in industries are limited or insignificant, financial institutions have to play a vital role in industrialisation of the State. Here it is necessary to analyse the role of financial institutions in the industrial development.

Importance of the Study

The State of Kerala with 1.2 percent of the total geographical area of the country accommodates 3.1 percent of its population. This situation creates many social problems. The serious unemployment problem of the educated youth is one of them. The agricultural sector in the State is almost saturated and measures to increase the productivity of crops will generate only a few additional jobs. The expanding social service sector offers some hope in this regard but such expansion is crucially linked to industrial development. In short, a lasting solution to the problem of unemployment which paves the way for much of the social unrest is possible only through rapid industrialisation. The developmental experience of Kerala has received world-wide attention because of the co-existence of high standard of living with low per capita income. In 2001, Kerala ranked first among the major states in India in terms of Human Development Index though the State stood only ninth in terms of per capita Net State Domestic Product (NSDP). A significant aspect of 'Kerala's Model' is that even without having high per-capita income, industrialisation and urbanisation, the state has reached the third stage of demographic transition and people get better medical care and education. At the same time the state has become low growth, high cost, low productivity, low investment and low employment economy. It is felt that the State cannot continue to have high level of social consumption with slow growth of the economy, particularly in sectors like agriculture and industry and deteriorating financial health. While the Indian economy has already completed one decade of reforms, only very recently the State has initiated economic reform measures. The industrial economy, perhaps the darkest aspect of Kerala economy, faces

problems like lopsided structure, low level of investment and poor performance of State Public Sector Undertakings continues. In the financial sector, the problem continues to the low level of credit deployment by commercial banks and other financial institutions. If the industries are rejuvenated with the idle resources of the State's financial institutions a good number of educated youth who flee to other countries for jobs could have been accommodated in the State itself. Hence this study may prove to be useful and timely. The study is not merely an analysis of the overall growth and their quantitative performance but also of their qualitative performance. This study seeks the attention of the Government, researchers, the beneficiaries, i.e. the public and finally the most important group, i.e., the officials of these financial institutions.

Statement of the Problem

The people of Kerala look upon the rapid industrialisation of Kerala as a lasting solution to the problem of unemployment which paves the way for much of the social unrest. But the position of Kerala in the industrial map of India is almost insignificant. Table 1.1 reveals that the contribution of the manufacturing sector and the secondary sector as a whole towards GDP are comparatively less. One of the major weaknesses of the industrial sector of Kerala is the lack of investments. The investments of the Central Government and State Government are less in this direction. Therefore financial institutions have to play a greater role in the industrialisation of Kerala. In this study, it is proposed to analyse the role of these financial institutions in the industrialisation of Kerala.

Objectives

When the units assisted by the agencies perform well, that itself is an indication that the agencies have a role to play. It is not the number of institutions assisted but the number of units performed reasonably well among the assisted units, that is more important to be considered in evaluating the role of financial institutions. This study is to determine the role played by the financial institutions in the industrialisation of Kerala. Specific objectives are set up which are as follows.

1. To study the growth of advances year-wise and institution-wise over a period of years.
2. To study the performance of units assisted by KFC, KSIDC and commercial banks.
3. To assess the role of these institutions based on these performances.
4. To assess the inter-institutional, inter-district, inter-product variations in industrial finance.
5. To study the major problems faced by the industrial units of Kerala.
6. To make suitable suggestions and recommendations on the basis of the findings of the study.

Hypotheses

On the basis of the above objectives the following hypotheses have been formulated and tested.

H₁: Financial institutions to be effective should be more customer friendly.

H₂: Judged by the performance of units aided, the State sponsored agencies have a positive role in industrialisation of Kerala.

Various sub-hypotheses have been formulated which are as follows:

- a) KFC aided units perform better than banks aided units.
- b) KSIDC aided units perform better than banks aided units.
- c) KFC aided units perform better than KSIDC aided units.
- d) There is no significant difference in the performance of the selected units district-wise.
- e) There is no significant difference in the performance of the selected units product- wise.

Methodology

The study has been designed as an empirical one based on survey method. Data have been collected from both secondary and primary sources.

Secondary Data

Secondary data have been collected from the following sources.

1. Annual Reports of KFC and KSIDC for different years.
2. Statistical statements of State Level Bankers' Committee (SLBC).
3. Report on Development Banking, Industrial Development Bank of India.
4. Plan documents of the government
5. Economic review prepared by State Planning Board, Thiruvananthapuram.
6. Documents of Centre for Monitoring Indian Economy Limited, Mumbai.
7. Academic studies conducted in related fields in different universities.
8. Books and journals dealing with the subject.

9. RBI publications and

10. District Credit Plans.

Primary Data

Primary data required for the study have been collected from the borrower units using multi stage stratified sampling techniques. A good deal of special information on financial institutions has been collected through direct personal interviews with the topmost authorities of KFC, KSIDC and commercial banks. Discussions were also held with experts and scholars in the area.

Sampling Design

Multi-stage stratified sampling was adopted. The districts of Kerala have been divided into four categories on the basis of KFC classification which is on the basis of the degree of industrialisation achieved. Category A comprises the no-industry or very backward districts of Idukki and Wynad. Category B comprises the backward districts of Alappuzha, Malappuram, Kannur, and Kasargode. Category C consists of the less developed districts of Thiruvananthapuram and Thrissur. Category D includes the non-backward districts of Pathanamthitta, Kollam, Kottayam, Ernakulam, Palakkad and Kozhikode. From each category one district was selected at random. Thus, from category A Idukki, from category B Alappuzha, from Category C Thrissur and from category D Ernakulam emerged as samples.

In the second stage, lists of units assisted during 1996-97 was collected personally from the KFC branches and bank branches of the four selected districts and a list of units assisted by KSIDC was obtained from its Kochi

branch. For each district 8 units assisted by KFC and 8 units assisted by bank branches were selected at random. During 1996-97 KSIDC has financed in total 17 units from these four districts together. These units include one from Idukki, one from Alappuzha, 3 from Thrissur and 12 from Ernakulam. All units from Idukki, Alappuzha and Thrissur and 7 units at random from Ernakulam were selected. Thus the sample consists of 76 units.

Data Collection Tools

Primary data have been collected with the help of a structured interview schedule. The schedule was served on a few units of Thrissur district in June 2001. After a month of time, suggestions were gathered through the pilot study and discussions were held with industrialists and the authorities of the three institutions. The schedule was given its final shape (Appendix-1) then and it was administered on the selected 76 sample units.

Tools of Analysis

Analysis has been done by using techniques such as percentages, averages, accounting ratios and Z-score test.

Scope of the Study

The growth of the developing economies is very often constrained by the scarcity of certain crucial resources. Of these, one of the most vital is capital. It is very important to see that the industries get enough of working and fixed capital in time. Besides the Central and State Government assistance, the industries of Kerala get financial help from the All India Financial Institutions

(AIFIs) at the national level, Kerala Financial Corporation (KFC) and Kerala State Industrial Development Corporation Limited (KSIDC) both at the State level and a network of commercial banks. The help obtained from the major AIFIs as on 31st March 2001 is only 1.1 percent. Therefore the study is limited to the two State level institutions, viz., KFC and KSIDC and commercial banks.

Period of the Study

The study covers a period of five years from 1996-97 to 2000-01. The survey was conducted during the year 2001-02. Secondary data were collected for a period of eleven years, i.e., from 1991-92 to 2001-02. Wherever found necessary, data relating to prior periods were also considered.

Limitations of the Study

The study suffers from certain limitations. Some of the respondents have been reluctant to reveal all the information required as per the schedule, despite the assurance given that the data would be kept confidential. Some of the small industrialists are not having the habit of maintaining proper accounts and so they found it difficult to answer the schedule. Hence, care has been taken to see that the data collected are not biased as far as possible. Every effort has been made to collect accurate data from the respondents.

Since the sample units selected were 76 from the Kerala State, the conclusions may be applicable to the Kerala situations and generalisation of conclusions may not be possible.

REVIEW OF LITERATURE

A large number of studies have been conducted in the field of industrialisation of India and Kerala. Many aspects of the industries were studied including the financial aspects.

These studies are divided into two parts. Part A deals with studies related to parts other than Kerala and includes the studies pertaining to the financial aspect only of Indian Industrialisation. Part B deals with studies on Kerala industrialisation.

Part A

Inadequate capital is often referred to as the main obstacle to the growth of entrepreneurs James T McCroy (1956)⁷ confirms this argument.

Emphasizing the importance of small scale industries in the economic development of India, Basu (1957)⁸ deals at length with the financial problems and the functions of the SFCs in helping them.

The Seminar conducted by the RBI (1959)⁹ on “Financing of Small Scale Industries in India” went deep into the problem of SSI, the institutional setup, role of government in assisting small enterprises, resources of credit institutions and miscellaneous issues.

Balakrishna (1961)¹⁰ in his study “Financing of Small Scale Industries in India 1950-52” gives a detailed account of the finances of a sample of 270 small scale units in modern industry in India. The study analysed the finance, operation, profitability etc., of Small Scale Industries in India. He concludes that small scale industries are not financially sound as big industrial units.

Dhar and Lyndall (1961)¹¹ made a notable study of the modern Small Scale Industries. In their assessment of technical and financial assistance attempted by various institutional agencies, they criticise the policy of creation of units for their own sake. They opined that instead of giving protection, measures to remove disabilities of small firms and to give them a fair chance to compete in the market should be pursued.

Ramakrishna (1962)¹² brings out the financial needs of small scale industries and examines the financial assistance by State Corporations, banks, lending agencies etc.,

In a study focussing the financial problems of small scale and cottage industries in Uttar Pradesh, Mohammed Sayeed (1963)¹³ recommends the introduction of Participation Loan Scheme by State Government and the setting up of Small Business Investment Companies.

Lack of capital resources, mainly working capital is proved to be the biggest constraint on the efficiency of the selected sample of household manufacturing units in small towns and villages of Maharashtra by Shetty (1963)¹⁴.

Narayanan (1964)¹⁵ in his thesis discusses the financial problems faced by industries in general and recommends the setting up of an Industrial Development Bank at the State level for mitigating the problems.

Zacharia (1966)¹⁶ in his doctoral dissertations identifies a definite and determinant role that industrialisation has in the development strategies of developing countries in general and that of India in particular.

Gupta (1969)¹⁷ explains the impact of institutional finance. The special industrial financing institutions have been sponsored by the government for providing medium and long term financial assistance to industry. They are all of post-independence origin and have acquired such importance that they can be properly described as the corner stone of the modern industrial financing systems in India.

Darby (1970)¹⁸ surveys the wide range of problems encountered by firms of all sizes in manufacturing and service industries in the financing of expansion and suggests practical methods of overcoming these problems.

Ram. K. Vepa (1971)¹⁹ has studied the growth of small scale industries of India and compared it with those of Japan. He stands for credit supplementation system which enables a borrower to obtain credit from other banks on the guarantee of credit.

In his work Suresh Chandra Jain (1971)²⁰ analyses in detail the problem of institutional finance for small scale industries in the state of Uttar Pradesh.

The National Council of Applied Economics and Research (NCAER) (1972)²¹ in their study reveals that the major problems in production are largely those of shortage of raw materials and inadequate finance.

Sharma (1973)²² in his thesis discusses the role of State Financial Institutions in financing industries of Bihar. He examines the industrial financing by national level financial institutions and recommends the setting up of a Small Industries Bank.

Asit Banerji (1975)²³ throws considerable light on the processes that have led to the present situation of Indian Industries. The study deals with the malfunctioning of industries especially in the public sector. It investigates the relationship between capital intensity and productivity.

In his doctoral thesis Srinivas (1975)²⁴ has brought about how industrialisation led to economic development.

An up to date account of the evolution and present position of development banking in India is presented by Simha(1976)²⁵. He gives a general introduction of the many facets of development banking. He studies the functioning of State Financial Corporations (SFC) as a group and also about Karnataka SFC. He discusses briefly about their state level development agencies and commercial banks.

Sudarshan Lal (1976)²⁶ discusses in brief the eligibility of small industries and various categories of small borrowers for grant of credit facilities, types of credit facility, term loans, working capital advances etc., available to them from commercial banks, State Financial Corporations, National Small Industries Corporations and other institutions and also the general terms and conditions governing the grant of such assistance.

Inderjit Singh and Gupta (1977)²⁷ try to find out the role played by commercial banks in financing small industries. They also find out the prospects of bank finance in Kashmir in particular. They conclude that the work done by commercial banks is not satisfactory.

In his thesis, Parekh (1978)²⁸ reviews the role of financial institutions and State agencies in extending credit to small scale units and pinpoints their

attitude of indifference in catering to the needs of the tiny units. He is of the view that financial institutions have to attune their lending policies in consonance with the needs of the small sector in general.

The role of Government and various institutions in developing and financing small scale industries in Cachar district in particular and the state of Assam in general is examined by Nikhil Bhushan Dey (1981)²⁹.

Sikidar (1982)³⁰ analyses the contribution of Assam Financial Corporation in the industrialisation of the region. He also evaluates its performance, policies, procedures and practices.

Mahajan (1983)³¹ discusses in detail the role of agriculture and industry in development strategy. The diversified growth of large scale industries since 1951, the teething problems of small and tiny industries, the different policies affecting large scale and small industries are discussed in the work.

Natarajan (1983)³² examines the trends in institutional financing to small scale industrial units in Andhra Pradesh for period of one decade commencing from 1970.

In their work, Bidani and Mitra (1984)³³ opines that bank finance is a critical resource for the growth of industry and at the same time it is scarce. Therefore they conclude that it is the duty of every banker to be fully conversant with the procedural aspects of financing and the entrepreneurs to ensure successful implementation of their projects and plans.

Hrishikes Bhattacharya (1984)³⁴ has divided his study into 3 stages – first stage covering the banker's problems due to expansion of business

followed by the second stage where the question of entrepreneurial development is discussed and then the third stage with problems of small scale industries vis-a-vis the banks are discussed with indications to possible solutions.

Bharav H Desai and Ramesh B Darji (1986)³⁵ makes an attempt to investigate the extent of working capital financing provided by banks in the textile units under National Textiles Corporation, in the context of Tandon and Chore Committee recommendations. They find that the bank financing is below the maximum permissible bank financing limit.

Jain (1986)³⁶ in his thesis, examines the role of State Financial Corporation (SFC) in industrial finance in India with particular reference to Uttar Pradesh Financial Corporation. He opines that SFCs should pay greater attention towards the financing of tiny units and also in the modernisation and rehabilitation of small units.

Radhe S. Pradhan (1986)³⁷ in his article studies the financing pattern of working capital in the Indian industry. He finds that trade creditors is the major source of short term financing in Indian industries. Bank lending is the second largest source of finance. Long term financing for working capital is found low in most of the industries.

Agarwal (1987)³⁸ concludes that Indian banking system has failed to extend appropriate amount of loans to small scale industries. He is of the opinion that lending institutions should be more practical and flexible in their attitude rather than strictly legal with a view to enabling the borrowing units to overcome any temporary difficulties.

An attempt to identify the factors which are associated with the regional disparities in commercial banking in India is made by Chippa (1987)³⁹. It is a full scale study of the measurement of regional disparity in commercial banking development in India. An important finding of the study is that in a mixed economy like India, where the government policy is capable of influencing various aspects of commercial banking, the regional disparities of banking development may indicate a convergent trend.

Misra (1987)⁴⁰ analyses the factors which prompted the entrepreneurs to take industrial activities. He lists internal factors and external factors. Internal factors generate an inclination to adopt entrepreneurial activity while the external factors provide a 'spark' in the lightning of the idea of entrepreneurship. These factors depend upon the nature of entrepreneurs. External factors include financial assistance.

Sudarshan Lal (1987)⁴¹ in his work, "Loans to Industries", explains that the commercial banks and other credit institutions in the wake of social control, nationalisation of major Indian banks and 20 point programmes have liberalised the conditions for grant of assistance to the small industries and small borrowers.

Bansal (1988)⁴² evaluate and assess the efficiency and efficacy of Development Banks in the field of large and medium industries. The financial procedures, policies and operations have been investigated. Ability of these institutions in chaneling funds towards large and medium industries has been evaluated empirically. The study reveals that institutions have not been adequately performing their role.

In a study on financing of decentralised sector by State Financial Corporation Gupta (1989)⁴³ suggests that fresh performance indicators should be formulated where emphasis on creation of employment opportunities should be made instead of expansion of credit.

The role of Andhra Pradesh State Financial Corporation in providing financial assistance to Small Scale Industries in Andhra Pradesh is examined by Sathyanarayana (1989)⁴⁴. The study has been undertaken with the primary objective of evolving some criteria for the financial institutions to follow in their lending activities.

The working of Bihar State Financial Corporation (BSFC) is studied by Ram Chandra Singh (1990)⁴⁵ and he suggests provision of financial assistance at concessional rates by BSFC.

In his work, Ray (1990)⁴⁶ has provided a comprehensive review of Indian industrialisation. He deals in detail on the different aspects of industrial finance. The work contributes to the main stream of knowledge on the Indian industrial revolution and attends to all the vital aspects of the emerging concepts in Indian industrial development with clarity and perspicacity.

Reddy, (1990)⁴⁷ in his study on small scale units in Vishakapatnam district concludes that bank finance in particular and institutional finance in general have contributed significantly in the promotion of small scale industries.

In a study confined to Dakshina Kannada district, Raghurama (1991)⁴⁸ tries to analyse the problems faced by Small Scale Industrial units while

availing bank finance. The problems faced by the bankers and the procedure adopted by banks in extending finance are also examined.

In his study, Toor (1995)⁴⁹ has taken care of the requirements of the banks and bankers on the one hand and the entrepreneurs themselves on the other hand and provides ready solutions to day-to-day financing problems of small scale industries.

Vivek Deolankar (1996)⁵⁰ examines the small scale industrial units of Maharashtra in particular to the financial operations and he reveals that the Credit- Deposit ratio of the banks in Maharashtra in 1990-91 was 72.3% as against an all India level of 61.9% and the overdues percentage of banks of Maharashtra was 5.6% as against 8.7% at all India level during the same period. He concludes that in the present India context the socio-economic obligations of a banker include identification of project ideas, formulation of project, location of managerial talents, guidance to new ventures and assisting in the creation of employment opportunities.

Vasant Desai (1997)⁵¹ examines the role of financial institutions catering to the varied needs of the industry as well as the entrepreneurs. He has shown how the institutions meet the challenges of providing an integrated package of lending, technical assistance, economic analysis and management counselling that addresses the needs of individual industry.

Velayudhan (1999)⁵² brings out the important aspects of industrial growth of India from 1990 to 1998 . He reveals the role of bank credit in the industrial growth. He discloses a fact that a one percent increase in bank credit led to 0.28% increase in industrial growth during 1990-93, 0.63% in 1993-96

and 0.42% in 1996-98. He recommends to reorient the methods and practices, thinking and attitude of banks towards lending to industry.

Part B

Part B is organised in two sections. Section I which deals with all aspects of industrialisation except finance and Section II which deals with only financial aspect.

Section I is again classified into two

- a) Which covers the general aspects and
- b) Which covers commodity based industries.

Section I a General Aspect

It covers the following studies.

Nair (1968)⁵³ Desai (1972)⁵⁴ Raunaq Singh (1984)⁵⁵ Thomas Issac and Michael Tharakan (1986)⁵⁶, Cochin Chamber of Commerce (1988)⁵⁷, Mohanan Pillai (1994)⁵⁸, Nandamohan (1994)⁵⁹, Nandamohan and Thampi (1994)⁶⁰, and Vijayachandran (1994)⁶¹ deal with industrial backwardness or industrial development of Kerala. They bring out the reasons for the industrial condition prevailing at that time.

Oommen (1972)⁶² discloses the role of small industries in economic growth. Mathew Kurian (1972)⁶³, in his work is able to bring out the mistakes made in Pande Committee Report. Without any scientific support, the Committee asserted that Kerala was one of the industrially forward states so that the assistance from Centre might flow to other states. He concludes that

the condition of Kerala industrial sector can be improved only if Central Government avoid capitalism and embrace socialism.

Subramanian and Abdul Azeez (2000)⁶⁴ compare the position of Kerala with other states.

Oommen (1979)⁶⁵, (1981)⁶⁶, High Level Committee (1984)⁶⁷, Subramanian and Pillai (1985)⁶⁸, Subramanian (1990)⁶⁹, Thampi (1990)⁷⁰ bring out the wage cost of the industries and how high wage cost lead to shifting of industries.

Labour unrest, Trade union activities and Political influences are highlighted in the studies of Ramachandran (1973)⁷¹ and Mohan Kumar. (1994)⁷².

Nandamohan (1989)⁷³ studies about the capacity utilisations of industries in Kerala.

Kasthurbhai Lalbhai (1951)⁷⁴, Nair (1964)⁷⁵, Gangadharan (1970)⁷⁶, (1980)⁷⁷, Mohanan (1990)⁷⁸, (1994)⁷⁹ deal with studies own Public Sector, State Sector enterprises.

The general performance, problems and prospects of Kerala industries are highlighted by Prakash (1994)⁸⁰.

Section I b Commodity Based Industries

Radhakrishanan (1989)⁸¹, Alice Albin (1990)⁸² and Subramanian (1994)⁸³ concentrate on manufacturing industries as a whole.

Many researchers were attracted by the traditional industries like cashew, coir, handloom etc. While John Thomas Chirayath (1965)⁸⁴ and Kannan (1978)⁸⁵ concentrate on cashew industry, Coir Board (1960)⁸⁶, Nair (1977)⁸⁷, Navaneetha (1979)⁸⁸, Thomas Isaac (1984)⁸⁹, Department of Economics and Statistics (1986)⁹⁰ and Thomas Isaac (1992)⁹¹ study on coir industry. While Directorate of Handloom (1981)⁹², Karthikeyan (1985)⁹³ and Mridul Eapen (1991)⁹⁴ review the working of handloom industry, Abdul Azeez (1990)⁹⁵ concentrates on beedi industry. Aravindakshan (1983)⁹⁶ Mani (1990)⁹⁷, study the growth of tile industry. When John Thomas Chirayath (1966)⁹⁸ Kerala Forest Research Institute (1977)⁹⁹ deal with plywood industry John Thomas Chirayath (1968)¹⁰⁰ and Janardanan (1993)¹⁰¹ highlight on match industry. Thariyan George and Toms Joseph (1992)¹⁰² and Mathew (1984)¹⁰³ throw light on rubber industry. Lakshmidevi (1985)¹⁰⁴ and Ushakumari (1992)¹⁰⁵ review electrical goods industry. Ashitha Raveendran (2001)¹⁰⁶ studies about engineering industry and Government of Kerala (1972)¹⁰⁷ Bose (1988)¹⁰⁸ and concentrate on electronic goods industry.

Kerala State Industrial Development Corporation Limited (1971)¹⁰⁹ has conducted a study on Thrissur District to study the problem arising when industrialisation is embraced.

Besides these individual studies different departments of Government of Kerala and State Planning Board conduct studies according to need.

Section II Financial Aspects

Only a few researchers have concentrated on the financial aspect of industrialisation.

Financial system is compared with the circulatory system of a human beings. When the circulatory system is blocked temporarily the loss to the human body cannot be compensated. Similar is the case of financial system to the industries. Even then, only a few have studied this aspect which are listed below.

Krishnakumar(1975)¹¹⁰ studies the development of small scale industries giving importance to the contribution of banks. He finds that during 1974-1975 while the small scale industrial units of India as a whole enjoyed a lot of financial assistance from banks the small scale industrial units of Kerala enjoyed the least. He opines that it is not the shortage of government direction but the lack of interest of some industrial directorates and the bank authorities.

Mohanakumar (1984)¹¹¹ examines the role played by commercial banks in general and more particularly by State Bank of Travancore (SBT) in financing small scale industries in Thiruvananthapuram district. He finds that SBT has failed to reach its targets because of lack of co-operation between the different governmental and financing agencies.

Padmakumar (1991)¹¹² throws light on the preset practices followed by the Kerala Financial Corporation in formulating its business plans. He suggests that a comprehensive corporate plan can be formulated from the separate business plans prepared for all the sub-systems of the Corporation.

Sukumaran (1992)¹¹³ studies the effect of budgeting on some selected private and public undertakings in Kerala.

Thomas Koshi's (1992)¹¹⁴ study mainly focusses on small, medium and large scale units financed by the non-banking financial institutions namely KFC and KSIDC.

Ganesh (1993)¹¹⁵ studies and compares the working of State Financial Corporations of four southern states namely, Kerala, Karnataka, Andhra Pradesh and Tamil Nadu. The working of Kerala Financial Corporation (KFC) was studied in detail by taking the case of KFC aided and non-aided units. In terms of overall operational performance, Karnataka State Financial Corporation ranked first.

Sreelekha (1993)¹¹⁶ has evaluated the working of Kerala State Industrial Development Corporation Limited and has brought out the efficiency of the institution.

Despite the large number of studies no comprehensive study has been conducted on the role of financial institutions (measured in terms of units' performance) in the industrialisation of Kerala as per our knowledge. Thus, there exists a gap in research. The present study is a sincere attempt to find how far the various financial institutions helped the development of industrialisation of Kerala.

Layout of the Report

The report has been grouped into seven chapters. The first chapter the introductory one highlights the importance of industrialisation and the role of financial institutions in industrialisation. It also gives out the importance, scope, objectives, hypotheses, period, methodology, review of literature,

sampling design, data collection tools, tools of analysis and limitations of the study.

The second chapter titled 'Industrialisation of India and Kerala' provides a view of the industrial scene of India and Kerala.

'Industrial Finance in in Kerala', the third chapter is devoted to review the financial institutions of Kerala.

The fourth chapter namely, 'Role of Financial Institutions' studies about the social background, impression and the feelings of the loanees about the three financial institutions.

The fifth chapter titled 'Performance of the Aided Units' assesses the role played by the financial institutions in the industrialisation of Kerala.

Chapter six analyses the problems faced by the industrial units.

The last chapter namely, 'Summary, Findings, Conclusions and Suggestions' summarises the findings of the previous chapters, presents the conclusions and make a few suggestions for improving the financial facility to the industries.

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ROLE OF FINANCIAL INSTITUTIONS IN THE INDUSTRIALISATION OF KERALA

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By

JANCY DAVY

Under the supervision of

PROF. (DR.) K. C. VIJAYAKUMAR

Department of Commerce and Management Studies

UNIVERSITY OF CALICUT

P. O. CALICUT UNIVERSITY

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CHAPTER II

INDUSTRIALISATION OF INDIA AND KERALA

Introduction

The most important reason for the incessant craze for the rapid industrialisation in the underdeveloped and developing countries has been the identification of a positive nexus between industrialisation and economic prosperity. Although there is considerable growth in banking service sectors, the same trend is not seen in industrial sector. Paradoxically the abundant supply of educated skilled labour force coupled with a chain of monetary institutions, the growth of industrial sector is far from being satisfactory. This situation called for a detailed analysis of the role of financial institutions in the industrial development of Kerala.

The economic prosperity of a country to a large extent depends on the rate of industrialisation. Indian economy basically is an agricultural one with more than 60 percent of the population depending on agriculture. After independence the successive governments tried to industrialise the country through different five year plans. Even after 50 years, the growth of industrial sector in India is around 6 percent only, which cannot be considered satisfactory, viewed from the growth in population. Kerala, situated in the southern part of India, the rate of industrialisation is far below expectations.

In this chapter, an attempt is made to analyse the growth of industries in Kerala against the general background of Indian situations. The chapter is

divided into two parts – Part A deals with Industrialisation in India and Part B with Industrialisation in Kerala.

PART A

Industrialisation in India

India, predominantly an agricultural country, was so rich that it had become an eyesore and a target for invasion. India was famous for her high artistic skill of her craftsmen. When the Europeans made their first appearance in India, her industrial development was not inferior to that of the more advanced European nations.¹ The transitional period from Mughals to British was difficult to India because she had to face four great European competitors namely, the Portuguese, the Dutch, the French and the British. After the death of Aurangzeb, within half a century the English acquired mastery over the whole country. But the supremacy of the Indian handicrafts could not be maintained for long and by 1880 Indian handicrafts declined completely.

The modern industrial enterprise in India developed in the 18th century. But the development of industries in India was not only slow but also lopsided in its character. The performance of industries up to World War I was disappointing. The British people found India as a market for their products which were mostly produced from the raw materials taken from India. Even a century after the development of modern enterprises in India only two percent of the population was supported by the factory sector.²

The World War I, the boom of 1919-1920, the crisis of 1921, the depression of 1929-1933, the recovery of 1934-1937, the adoption of new constitution in 1935 and formation of ministries in various provinces during

1937-1939 are some of the main events that influenced India's industrial development during the inter-war period. Industrial production progressed and the total number of factories increased from 2936 in 1914 to 11613 in 1939. This showed an increase of 296 percent in twenty five years. The number of industrial workers increased from 9,50,000 lakhs to 17,50,000 lakhs. This showed an increase of 84.2 percent.

World War II gave a big fillip to the development of industries in India. Orders on an increasing scale were placed for industrial products, by the Government of India. Although attempts had been made to increase the output capacity of the major factory industries, in most cases the possibility of expansion was limited to available spare capacity of the existing units because procuring necessary plant and machinery from abroad proved discouraging. The trend of industrial activity in India during the war in the major large scale industries can be studied from the following Table 2.1.

Table 2.1
Interim General Index of Industrial Production
(Base 1937=100)

Year	Index of Industrial Production (IIP)	Annual Growth (in Percentage)
1938	105.4	-
1939	102.7	-2.6
1940	109.9	7.0
1941	117.8	7.2
1942	111.2	5.6
1943	117.0	5.2
1944	117.0	0
1945	120.0	2.6

Source: Kuchal, S.C., *The Industrial Economy of India*, Allahabad : Chaitanya Publishing House, 1966, p.76.

It can be seen from the above Table that in the initial years of World War II, IIP has decreased because the industries were affected by the war and the economy was unable to adjust to the changes. But in the later years except in 1942 IIP has grown by more than 5 percent which was possible by making use of the spare capacity. Again in 1944 and 1945 growth in IIP has come down.

Despite the progress in the number and paid up capital of companies and diversity there had been some adverse effects on the industrial economy such as heavy wear and tear to the machinery, inflationary trends, regional imbalance, large scale inter-locking of funds etc.

Partition

The year 1947 went down in our history as the most momentous one having witnessed the emergence of India as a free and independent nation. But the partition cut across the economic and political unity of the country. India got 77 percent of the total area of the undivided country with 82 percent of the establishments and 93 percent of the total number of workers employed. India had a greater diversity of industries than Pakistan.

It is true that pre-independence development of industries has been a kind of meandering and mostly saw to the interests of the British. Nevertheless, a slow and sectoral industrial edifice was being laid even in those days. We did not have to start from the scratch unlike a number of other underdeveloped countries particularly in the African continent. Industrial production continued to be restricted partly by the lack of confidence created by political and economic uncertainties and partly by the non-availability of machinery and

stores, shortage of raw materials, difficulties of transport and frequent dispute between labour and capital. In December 1947, Tripartite Industries Conference called for a three-year truce between capital and labour and providing for the creation of comprehensive machinery for the study and determination of fair wages and conditions of labour and fair remuneration for capital. Government decided to provide incentives to industry like (1) grant of tax concessions to industries in the budget for 1948-49 (2) continue cheap money policy and (3) passage of a Bill to establish Industrial Finance Corporation.

As a result industrial production in almost all industries improved. Labour-management relations improved. Industrial Policy Resolution 1948 and The Indian Factories Act, 1949 were passed. The rising trend in industrial production was maintained in the year 1949 and 1950.

The country's independence underlined the necessity for planned, systematic and balanced development of industries. For that purpose, a rather practical overhauling of the academic approaches towards industrial policy became imperative. The formulation of the Industrial Policy Resolution in 1948 was followed by the Industries (Development and Regulation) Act of 1951, Industrial Policy Resolution 1956 etc and finally the New Industrial Policy of 1991.

Industrial Development Under Plans

The importance of industrialisation as a means of achieving rapid growth and prosperity has long been in the thinking on development strategy for India even before the formal process of economic planning was launched.

As far back as 1944, the Bombay Plan, an influential document reflecting the views of nationalist Indian industrialists, had stressed the importance of pushing through the extensive industrial programme in a short period of time.³

Prior to the framing of the first five year plan, the major emphasis in industrial development had been on consumer goods industries while the development of basic capital goods industries had lagged behind. In the case of capital goods industries the available capacity in the country was in most cases inadequate. To make good the deficiencies in various spheres high rate of industrial advancement had become necessary which was possible only through plans. In March 1950 the Planning Commission was set up to assess the material, capital and human resources and to make plans in relation to the nation's requirements.

The real beginning in the field of industrialisation was made under Second Five Year Plan by adopting 'Basic Industries Approach' and because of lack of indigenous entrepreneurship and capital, the growth and expansion of public sector in industrial development of the country was accepted. During the Second Five Year Plan concentration was on building a core of industries such as iron and steel, non-ferrous metals, petroleum fertilizers, petrochemicals, and heavy engineering.

The growth of industries during the various five year plans is given in Table 2.2.

Table 2.2
Industrial Growth by Plan Periods

Plans	Year	Growth Rate (Percentage During Plan Period)
First	1950-1955	5.7
Second	1955-1960	7.2
Third	1960-1966	8.22
Annual Plans	1966-1969	2.83
Fourth	1969-1974	4.40
Fifth	1974-1979	6.24
Annual Plan	1979-1980	1.60
Sixth	1980-1985	5.90
Seventh	1985-1990	8.50
Annual Plans	1990-1992	4.45
Eighth	1992-1997	7.00
Ninth	1997-2002	5.2

- Source: 1) Dhingra, Ishwar C., *The Indian Economy – Environment and Policy*, New Delhi: Sultan Chand & Sons, 2002, p.400.
 2) CMIE, *Monthly Review of the Indian Economy*, Mumbai, Feb. 2003, p.4.
 3) Centre for Industrial and Economic Research, *Industrial Data Book 2000-2001*, p.97.

When the annual growth of industries during the five year plans is analysed the maximum growth was found during the Seventh plan followed by the third plan. In order to achieve a doubling of per capita income over the next decade, the Tenth Plan targets a Gross Domestic Product growth rate of 8 percent per annum. The corresponding growth target to the industrial sector is 10 percent.⁴

Index of Industrial Production

The premier indicator of industrial growth is Index of Industrial Production (IIP). The IIP of Indian industries from 1960 is given in Table 2.3.

Table 2.3
Index of Industrial Production

Year	IIP (General) (1980-81=100)	% Change over the Previous Year	Year	IIP (General) (1980-81=100)	%Change over the Previous Year
1960	36.10	-	1982	109.3	9.3
1961	39.3	9.2	1983	112.8	3.2
1962	43.1	9.7	1984	120.4	6.7
1963	46.6	8.1	1985	130.7	8.6
1964	50.6	8.6	1986	142.1	8.7
1965	55.3	9.3	1987	155.1	9.1
1966	55.1	-0.4	1988	166.4	7.3
1967	54.4	-1.3	1989	180.9	8.7
1968	57.9	6.4	1990	196.4	8.6
1969	62.0	7.1	1991	212.6	8.2
1970	65.0	4.8	1992	213.9	0.6
1971	67.9	4.5	1993	218.9	2.3
1972	71.9	5.9	1994	232.0	6.0
1973	72.2	0.4	1995	251.9	8.6
1974	73.5	1.8	1996	284.0	12.7
1975	77.5	5.4	1997	299.0	5.3
1976	86.9	12.1	1998	319.0	6.7
1977	89.9	3.5	1999	331.0	3.8
1978	96.1	6.9	*2000	154.9	6.7
1979	97.2	1.1	2001	162.7	5.0
1980	98.0	0.8	2002	167.0	2.6
1981	100.0	2.0	2003	176.6	5.7

Source: 1) CMIE, *India's Industrial Sector*, Mumbai, Jan. 1996, p.3.

2) Centre for Industrial and Economic Research, *Industrial Data Book*, 2000-2001, p.3.

3). Economic and Political Weekly Research Foundation, 'Current Statistics', *Economic and Political Weekly*, Vol. XXXVIII Sep. 20, 2003, p.3950.

*From 2000-2003 the base is changed to 1993-94 = 100.

In the period from 1960 to 2003 industrial growth happened to be negative twice in 1966 and 1967. The maximum growth felt was 12.7 percent in 1996 which falls in the period of study. Again, the growth rate decreased and came to a lower level such as 2.6 percent in 2002. The average growth rate for the entire period from 1960 to 2003 happens to be 5.46 percent. In order to achieve the target of 10 percent per annum as fixed in Tenth Plan, all should work hard.

Growth of Industries During the Period 1991-2002

The main single indicator of economic development is the Gross Domestic Product (GDP) of the country. The contribution of the secondary sector towards the GDP reveals the role of industrial sector in the creation of income. Table 2.4 reveals the contribution of various sectors towards GDP.

Table 2.4
Gross Domestic Product (Sector-wise)
(At Current Prices)

Sectors	Contribution in Percentage										
	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02
Primary	31.26	30.60	30.97	30.14	28.24	29.16	27.84	27.69	26.23	24.90	25.01
Secondary	27.87	28.29	26.26	27.10	28.12	27.43	27.23	26.50	26.02	26.92	26.34
Tertiary	40.87	41.11	42.77	42.50	43.64	43.41	44.93	45.81	47.75	48.18	48.65
Total	100	100	100	100	100	100	100	100	100	100	100

Source: CMIE, *National Income Statistics*, Mumbai, Various Years.

It is evident from Table 2.4 that contribution of industries (included in secondary sector) is almost stable i.e. around 26 to 28 percent. The contribution by the agricultural sector (primary) is found to be declining

steeply from 31.26 percent, to 25.01 percent, which is compensated by the increase in the service sector (tertiary sector) from 40.87 percent to 48.65 percent.

During late 60s and early 70s as most of the business houses of the foreign origin had to leave the country they handed over their businesses either to local industrialists or their trusted relative managers. This resulted in a change in the management style. Many local entrepreneurs set up new industries to counter the increasing competition. Between mid 70s and late 80s, a steady growth was witnessed by the Indian industries due to the various protections given by the government. Even though the industries were benefited, the general consumers were deprived of quality products at a competitive price. The everyday life of the average Indian was changed during 1990s when the government introduced open policies for global participation and looked for export market to mop up its critically low foreign exchange reserves. The word globalisation though heard simple was not really a pave of rose petals. This inevitably hurt the interest of Swadeshi industrialists who were enjoying a monopolistic market because of various protective policies of the government until then. The very existence of large monopoly industries came under threat with the entry of more global players. Every global player targeted the world's largest middle class population who can afford to buy their products.

Ironically, all the foreign investors worked out their projects for a conservative market share between 10 percent and 20 percent of its market size. With the passage of time though the number of foreign players increased

in multifold, the market growth or response could not keep pace with their initial expectations mainly due to recession and downsizing of Swadeshi Companies. This peculiar phenomenon coupled with high production capacity (unutilised) and inventory prompted a cut-throat competition amongst synergic industry for off-loading the stock into the market place at a rock-bottom price. The net result though apparently benefited the consumers; in the process the jungle theory of “survival of the fittest” came into reality and as a result many industries had to succumb to the pressure of low-pricing due to their limited resources and low productivity. They either perished or gave up for their big brothers who were eyeing for strategic merger.

The range and quality of manufactured products improved dramatically. Items that were hitherto considered luxury became common. Technology and competition in the new environment ensured that the gadgets of the new world were affordable by a larger section of the society. Table 2.5 reveals how the sales of different products and consumption by the people have changed over years.

Data presented in Table 2.5 reflect a substantial change in the life-style of Indians. The fastest growing manufactured product of 1990s was washing machine with a sales growth of 112.70 percent, and a consumption growth of 71.80 percent. The washing machine was almost non-existent in India at the beginning of the decade. Computers and peripherals stand in the second place which has changed the workplace for a large part of the urban working population. The scooter, moped and motorcycle replaced the bicycle, passenger cars have become accessible to a larger population and more people started

consuming coffee than tea. These changes reflect very appropriately the rise in the standard of living of the Indian population. The consumption of air-conditioning equipment at the rate of 23 percent per annum while that of electric fans at 4.8 percent is noteworthy.

Table 2.5
Growth of Sales and Consumption

Products	Growth in Total Sales during 1990-91 to 2000-01 (%)	Growth in Total Consumption during 1990-91 to 2000-01 (%)
Tea	7.2	5.3
Coffee	15.3	13.3
Pressure cookers	19.1	18.0
Electrical Fans	5.3	4.8
Air-conditioning Equipment	22.9	23.4
Refrigerators	14.2	14.5
Vacuum cleaners	7.9	8.1
Washing Machines	112.7	71.8
Computers & Peripherals	27.9	29.7
Passenger cars	23.1	23.0
Motor Cycles	23.4	23.3
Mopeds	15.7	15.7
Scooters	6.1	5.7
Bicycles	11.2	10.6

Source: CMIE, *Industry Market size and Shares*, Mumbai, August 2002, pp.3-6.

The relative failures, for example, the growth in the Vacuum cleaners market by only 8 percent per annum and that of tea by only 5.3 percent are to be noted.

In Table 2.6 the particulars of Indian industries for a period from 1990-91 to 1997-98 are given. The period of eight years is divided into two - the first half is from 1990-91 to 1993-94 i.e., the period immediately after the declaration of liberalisation and the second half is from 1994-95 to 1997-98.

With regard to the first information, value of output, it is found to be increasing at a higher speed in the second half, i.e., 61.46 percent. The increase in the value of total input is also increasing at a higher speed in the second half (63.28 percent) which is higher than the increase in the value of output the effect is reflected in the growth in profit. The growth in profit in the second half is found to be less than the growth in profit in the first half. If the value of input is analysed by segregating it into raw material cost, labour cost and indirect expenses it can be seen that the growth of raw material consumed, fuel consumed and emoluments of workers were low in the second half, still the growth in the profit is less because of the growth in indirect expenses. It points out to the fact that the business concerns had to incur heavy amount as indirect expenses may be to meet the cut-throat competition existing in the market due to liberalisation. The growth in the net value added is also less in the second half. The investment in the fixed capital and working capital has decreased and invested capital is also less which may be concluded to be the immediate effect of liberalisation. The growth in number of workers is higher in the second half when compared with the first half; it is to manage the increase in the output.

Table 2.6
Financial Aggregates of All Industries

Particulars	Units	1990-91	1991-92	1992-93	1993-94	% of Growth in the First Half	1994-95	1995-96	1996-97	1997-98	% of Growth in the Second Half
Value of Output	Rs.100Crores	2705.64	2991.96	3686.14	4257.44	57.35	5179.87	6705.13	7423.07	8363.36	61.46
Total Inputs	Rs.100Crores	2089.86	2330.28	2829.43	3208.55	53.52	3907.95	5075.12	5569.15	6380.99	63.28
Raw material	Rs.100Crores	1669.43	1854.08	2236.94	2548.26	52.64	3116.75	4103.85	4082.03	4584.23	47.08
Fuels consumed	Rs.100Crores	209.00	240.56	310.72	337.25	61.36	403.91	485.18	546.47	605.83	50.00
Total Emoluments	Rs crores	20586.30	20970.50	27226.30	28639.70	39.12	35341.50	45135.90	43505.40	49143.50	39.05
Wages to workers	Rs. Crores	13192.00	13582.60	16660.80	17597.40	33.39	22019.50	27991.90	26554.60	29781.70	35.25
Profits (Profit before tax)	Rs. Crores	11389.50	9635.10	14871.10	23598.60	107.20	37207.50	43928.40	60675.00	57614.40	54.85
Net Value added	Rs. Crores	51514.60	54827.00	71248.20	88434.00	71.67	108517.00	139359.80	157857.90	166441.20	53.38
Fixed capital (Net fixed assets)	Rs.100Crores	1336.48	1519.02	1928.71	2244.13	67.91	2776.45	3484.72	3800.44	4230.82	52.38
Working capital	Rs. Crores	42520.40	44468.20	62490.10	87108.60	104.86	87296.30	107666.70	171659.30	154616.60	77.11
Invested capital	Rs.100Crores	1949.10	2212.30	2777.30	3205.50	64.46	3875.350	4899.75	5221.54	5768.26	48.84
No. of workers	No.s	6307143	6269039	6649310	6632323	5.16	6970116	7632097	7208143	7652254	9.79

Source: CMIE, *Industry, Financial Aggregates and Ratios*, Mumbai (Various years).

In the 90s, the period immediately following the reforms was marked by low growth rates in the industrial sector. However, the growth rates quickly recovered. After a decline in the growth rate in 1990-1991 by 0.4 percent and then by 7.6 percent in 1991-92, there was a recovery to 2.3 percent in 1992-93 as revealed by Table 2.3. The industrial sector again recovered to 6 percent 1993-94, 8.6 percent in 1994-95 and it reached the peak point in 1995-96 at 12.7 percent. However in 1996-97 the Indian industry witnessed a growth of only 5.3 percent and 6.7 percent in 1997-98. Again it declined to 3.8 percent in 1998-99.

The major policy changes initiated in the industrial sector since July 1991, viz., removal of entry barriers, reduction of areas reserved exclusively for public sector, rationalisation of the approach towards Monopoly Restrictive Trade Practices, liberalisation of foreign investment policy, far-reaching liberalisation of import policy with respect to intermediaries and capital goods may have all contributed to the upsurge in industrial growth.

The slow down in industrial growth may be primarily due to a slackening in aggregate demand. This includes factors such as falling export growth due to overall slump in the world trade, decline in rural demand owing to low agricultural output in 1997-98, price competition from imports in certain key industries, slow take-off of actual investment in infrastructure projects and drying up of source of funds due to continuing sluggishness in capital markets. It is in this context that we have to think about industrialisation of Kerala.

PART B

Industrialisation of Kerala

Kerala, God's own country has very many things to offer-unrivalled scenic beauty, delectable cuisine, vivid architectural styles and stay in cottages that are replicas of traditional Kerala Houses. Kerala is a store house of natural beauty and human values. With 1.2 percent of the total geographical area of the country Kerala accommodates 3.09 percent of its population.

From the days immemorial, traditional industries like mat-weaving, handlooms, bamboo products etc. were popular in different parts of Travancore, Cochin and Malabar. But concrete attempts for industrialisation were started only by the middle of the 19th century. The first factory, a textile factory was started at Quilon in 1881 by an American group. When the industrial development of Travancore is traced, Sir C.P. Ramaswamy Iyer, Diwan of Travancore deserves special mention. He realised the fact that capital and skilled labour are not sufficiently available in Travancore or nearby states and hence he invited outsiders to start industries in Kerala. Thus came Indian Aluminium Company at Eloor, Travancore Sugars and Chemicals Limited, Ogale Glass Factory, Fertilisers and Chemicals Travancore Limited, Rayons Perumbavoor and Travancore Titanium Products Limited.

The important industries flourished in Cochin State were coconut oil and textiles. One of the important textile mills in Cochin State was Pushpagiri Weaving Mills started at Thrissur in 1908, the present Sitaram Textiles. An industrial survey was conducted in 1909 by Cochin State Government, followed by an economic survey in 1920. The survey committee suggested the

starting of an Industrial Advisory Board. As per this recommendation, the Board was constituted but soon after it was merged with the Economic Development Committee formed in 1925.

Just like Cochin State, Malabar also earned good amount of foreign exchange from the export of coconut oil. Another important industry popular in Malabar was the soap industry. While the industrialisation of Malabar is traced, the work of 'Basel Mission' deserves special reference.⁵ The industrial activities of Basel Mission began with the outbreak of World War I in 1914.

The industrial structure, at least till the early 1940s was dominated by export-oriented plantations and agro-processing industries. Coconut and its products, plantation crops and other hill produces accounted for 80.4 percent of the value of exports in 1870-71, 80.2 percent in 1919-20, 82.1 percent in 1938-39 and 85.5 percent in 1945. The plantation sector accounted for 56.2 percent of the total invested capital. Even in 1940-41 the work force in plantations and agro-processing industries accounted for over 84 percent of the total work force in organised industry.

The period from 1935 to 1948 still remains 'the golden age' of Kerala's industrial sector because it was during this period that many of the initial industries were started.

The State Domestic Product provides the most important and widely accepted single index of overall economic development of the State.

Table 2.7
NSDP and Per Capita NSDP of Different States

Sl. No	State	NSDP at Factor cost (Rs. crore)								Per Capita NSDP at factor cost (Rupees)							
		At constant Price				At current Price				At Constant price				At Current Price			
		90-91	R	96-97	R	90-91	R	96-97	R	90-91	R	96-97	R	90-91	R	96-97	R
1	Maharashtra	27224	1	22685	1	58137	1	152129	1	3483	4	4853	2	7439	4	17295	3
2	Uttar Pradesh	22780	2	27018	2	49496	2	103170	2	1652	20	1763	16	3590	22	6733	15
3	West Bengal	14458	3	21488	3	31165	4	72195	3	2145	10	2876	8	4673	12	9441	10
4	Tamil Nadu	12411	4	16984	4	31500	3	70537	4	2235	9	2880	7	4978	9	11215	6
5	Gujarat	10872	7	16943	5	27646	5	66134	5	2649	7	3717	5	5891	5	13932	5
6	Andhra Pradesh	11723	5	15587	6	24180	7	63501	6	1779	16	2130	13	4720	11	9867	9
7	Madhya Pradesh	11107	6	13842	7	26515	6	54943	7	1696	19	1875	14	4049	19	7445	14
8	Karnataka	9112	9	12916	8	20551	9	50262	8	2039	11	2641	9	4598	13	10279	8
9	Rajasthan	8473	10	11096	9	18281	10	41872	9	1942	13	2247	11	4191	18	8481	12
10	Punjab	7505	11	9851	10	16738	11	41050	10	3730	2	4371	3	8318	2	18213	2
11	Bihar	10253	8	9836	11	22787	8	37331	11	1197	24	1010	19	2660	25	3835	19
12	Kerala	5262	13	7422	12	12238	12	30005	12	1815	14	2363	10	4200	17	9066	11
13	Haryana	5719	12	7328	13	12173	13	28480	13	3509	3	3956	4	7508	3	16199	4
14	Orissa	4345	14	5586	14	9664	14	22488	14	1383	23	1595	18	3077	24	6422	17
15	Assam	3426	15	4107	15	9498	15	16811	15	1544	22	1628	17	4281	16	6663	16
16	Jammu Kashmir	1362	16	-	-	2763	16	-	-	1786	15	-	-	3625	21	-	-
17	Himachal Pradesh	1151	17	-	-	2521	17	-	-	2241	8	-	-	4910	10	-	-
18	Goa	568	18	813	16	1024	18	2574	16	4883	1	6227	1	8797	1	19719	1
	All-India	190218		263427		425619		1022033		2267		2814		5073		10919	

Source: Economic and Political weekly Research Foundation, *National Accounts Statistics of India 1950-51 to 1996-97*, October 1998, pp. 82-85.

The data depicted in Table 2.7 at constant prices show that Maharashtra dominates as the highest State Domestic Product State followed, albeit at some distance by Uttar Pradesh, West Bengal, Tamil Nadu, Gujarat, Andhra Pradesh and Madhya Pradesh. The ranks of these top states have by and large remained unchanged except for the upward mobility of Gujarat from 7th to 5th and downward mobility of Andhra Pradesh from 5th to 6th and Madhya Pradesh from 6th to 7th. Kerala shifted from 13th rank to 12th rank.

When Net State Domestic Product (NSDP) at current prices is considered, Maharashtra, Uttar Pradesh, Andhra Pradesh, West Bengal, Tamil Nadu, Gujarat and Madhya Pradesh bagged the highest ranks. Just as at the constant prices, at current prices also the ranks of these states have by and large remained unchanged except the upward mobility of Andhra Pradesh from 4th to 3rd, Gujarat from 7th to 6th and downward mobility of West Bengal from 3rd to 4th and Madhya Pradesh from 6th to 7th. Kerala continued to occupy the 13th rank.

More effective study can be made with the help of per capita NSDP. At constant prices Goa, Maharashtra, Punjab, Haryana, Sikkim and Gujarat bagged the top ranks while Kerala bettered from 14th to 13th rank. There were 7 states scoring higher per capita than All India per capita Net Domestic Product (NDP). At current prices Goa, Punjab, Maharashtra, Haryana, Gujarat and Tamil Nadu reached the higher positions. There were 8 states scoring higher per capita than All India per capita NDP. Kerala shifted upwards, from 17th rank to 15th rank.

From Table 2.7 it has become clear that the position of Kerala is not satisfactory with regard to NSDP and per capita NSDP.

The fact that Kerala's per capita State Domestic Product (SDP) in 1950-51, the year in which planning was introduced in India, was higher than the all-states' average has not received due attention in Kerala among the public as also among the academicians. The 1950s witnessed marginal decline in Kerala's relative position according to National Council of Applied Economic Research (NCAER) estimates. According to Central Statistical Organisation estimates Kerala's per capita SDP in 1960-61 was only 84 percent of the all-states' average. But the trend was reversed in the seventies, and the eighties witnessed only tardy growth and as a result in 1991-92 per capita SDP was only 80 percent of the all-states' average. In 1997-98 it was 83 percent as is evidenced in Table 2.7.

Contrary to the general belief that the economy of the state is growing at a rate lower than other states, the publication of the Reserve Bank of India, "Handbook of Statistics on Indian Economy, 2000" shows that the NDP of Kerala registered a growth of 59.08 percent during the period 1989-90 to 1997-98. This is higher than that of Tamil Nadu (58.64 percent) and a good deal higher than that of Karnataka (51.26 percent) and several other states. It is clear from Table 2.8.

Table 2.8
State-wise Growth of Net State Domestic Product
(At factor cost: Constant prices) (In Percentage) (Base 1980-81=100)

State	Growth Rate during 1980-81 to 1989-90	Rank	Growth Rate from 1989-90 to 1997-98	Rank
Gujarat	63.14	5	72.58	2
Maharashtra	71.81	2	64.80	4
Andhra Pradesh	57.61	8	72.82	1
West Bengal	43.16	12	65.76	3
Kerala	27.96	14	59.08	5
Madhya Pradesh	38.69	13	51.65	8
Tamil Nadu	58.88	7	58.64	6
Rajasthan	77.51	1	52.08	7
Karnataka	61.91	6	51.26	9
Haryana	70.78	3	45.71	10
Punjab	65.54	4	37.71	11
Orissa	52.02	10	14.88	13
Uttar Pradesh	53.45	9	27.27	12
Bihar	47.50	11	13.74	14

Source: RBI, *Hand Book of Statistics on Indian Economy*, 2000.

In fact, Kerala ranks fifth among the major states with regard to growth rate of State income during this period.

If per capita income of Kerala is analysed and compared for the later years it can be seen that it is higher than at national level. This is clear from Table 2.9.

Table 2.9
Per Capita Income of India and Kerala

Year	Per Capita Income (At Current prices)			
	India		Kerala	
	(in Rs)	Percent Change over the Previous Years	(in Rs)	Percent Change over the Previous Years
1992	5583	-	5140	-
1993	6249	11.9	5768	12.2
1994	7060	13.0	7727	34.0
1995	8282	17.3	9327	20.7
1996	9578	15.6	11190	20.0
1997	10771	12.5	12716	13.6
1998	12729	18.2	14642	15.1
1999	14712	15.6	16811	14.8
2000	16047	9.1	17709	5.3
2001	16707(P)	4.1	19463 (P)	9.9
2002	17978 (Q)	7.6	21310 (Q)	9.5

Source: Government of Kerala, State Planning Board, *Economic Review*, (Various years)

P- Provisional Q-Quick Estimates.

From Table 2.9 it is seen that from 1993-94 onwards Kerala per capita income is more than All-India per capita which is a good sign. But if the growth rate of per capita income is analysed, the state figure is more than All-India figure up to 1996-97, but from 1997-98 onwards the per capita income growth of Kerala is less than All-India level which is not satisfactory.

However, from 2001 onwards, again a positive change can be found which may be due to the increase in the Non- Resident Indian (NRI) remittances.

Sectoral contribution of State Income during the previous years reveals the structural changes occurred over the years.

Table 2.10
Sectoral Share of Net State Domestic Product at Factor Cost
(At current prices – percentage)

Sectors	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02
Primary	36.03	35.07	33.93	37.6	34.5	29.45	29.18	28.72	25.4	24.5
Secondary	26.13	25.72	26.06	23.1	23.2	22.02	21.40	20.64	21.2	22.0
Tertiary	37.84	39.21	40.01	39.3	42.3	48.53	49.42	50.64	53.4	53.5
Total	100	100	100	100	100	100	100	100	100	100

Source: Department of Economics and Statistics, Thiruvananthapuram.

The contribution of primary sector ranges from 24.5 percent to 36.03 percent, that of secondary sector from 21.2 percent to 26.13 percent and that of tertiary sector ranges from 37.84 percent to 53.5 percent. The tertiary sector has contributed more to NSDP at the cost of primary and secondary sectors, i.e., the contribution of the two production sectors decreases year after year while the contribution of service sector increases.

Over the years it is found that the contribution of primary and secondary sectors has deteriorated. The production sectors are lagging behind. The tertiary sector is slowly getting dominance. Thus a structural shift is experienced. This shift can be related to Kuznet's theory⁶ which occurs when industrialisation crosses a particular level in relation to population base. But if

the industrial sector is closely watched upon, it can be noticed that it is not industrialisation that acted as the stimulus for the development of tertiary sector but some other external factors. Due to the flow of NRI money into the economy, per capita income has increased which resulted in high literacy rate. The State of Kerala with a density of 819 per square kilometre finds it difficult to give employment to all the unemployed. The agricultural sector in the state is almost saturated and measures to increase the productivity of crops will generate only a few additional jobs. The expanding social service sector offers some hope in this regard but such expansion is crucially linked to industrial development. In short, a lasting solution to the problem of unemployment which paves the way for much of the social unrest is possible only through rapid industrialisation.

In order to get a clear picture of the pace of industrial development in Kerala it is necessary to take into account the magnitude and intensity of industrialisation in the State which is clear from Table 2.11.

In terms of value added Kerala ranks 16th in the manufacturing sector. The first place is to Maharashtra which had an amount of 21603.9 crores as value added which is 42 times higher than the figure of Kerala (Rs 519.9 crores). The share of Kerala in value added is comparatively low and is below the national average. With regard to gross output per worker Kerala ranks 13th, in terms of capital productivity it ranks 10th among the major states and it is not very encouraging. Kerala's share of industrialisation is not even proportionate to its population base in the country. Having 3.09 percent of the country's population Kerala accounts for only 1.7 percent of country's total fixed capital,

only 2.07 percent of country's total value of output, 3.5 percent of country's total persons engaged and 5.9 percent of country's total value added.

On the industrial map of India, the position of Kerala is almost insignificant (Table 2.11). As it is widely known, there is too much imbalance in state-wise growth of India. The imbalance is conspicuous from Table 2.11. It makes clear that altogether there is a skewed distribution of organised industries across states.

Table 2.11
Manufacturing Sector 1993-94

State	Persons Engaged (000)	Fixed Capital (Rs. crore)	Value of Output (Rs. crore)	Value Added (Rs. crore)	Gross Output Per Worker (Rs. lakhs)	Output to Fixed Capital (percent)	Profit to Output (percent)
Andhra Pradesh	884.5	22244.3	28375.4	4909.2	3	127.6	0.8
Assam	114.4	1519.1	3682.9	859.8	3	42.4	15.3
Bihar	343.8	11458.2	19586.6	6728.8	6	170.9	18.0
Gujarat	771.0	23956.7	46904.0	9425.0	6	195.8	7.4
Haryana	290.1	6006.4	15400.1	2112.8	5	256.4	1.5
Himachal Pradesh	59.8	1861.5	1963.0	930.2	3	105.4	23.2
Jammu & Kashmir	15.2	89.1	768.2	192.5	5	862.0	17.7
Karnataka	460.7	7414.8	18761.8	4136.6	4	253.0	6.8
Kerala	309.9	3839.0	8814.0	519.9	3	229.6	5.9
Maharashtra	1346.3	38952.0	92233.2	21603.9	7	236.8	9.1
Madhya Pradesh	454.7	16139.5	24565.5	5371.8	5	152.2	7.7
Orissa	185.3	8774.2	8325.4	1684.4	4	94.9	1.6
Punjab	443.7	9819.5	19242.9	2983.9	4	196	4.3
Rajasthan	257.0	6112.6	13918.6	2379.7	5	227.7	0.3
Tamil Nadu	1127.2	19842.7	45634.5	9883.1	4	230.0	9.4
Uttar Pradesh	788.0	23636.6	40199.4	5773.3	5	170.1	3
West Bengal	741.9	19750.3	22886.1	5358.2	3	115.9	2.1
All India	8837.7	224413.3	425744.3	8843.0	5	189.7	6.7

Source: CMIE, *Profiles of States*, Mumbai, 1997, p.17.

A study of the various trends of Kerala's industrial growth requires a systematic analysis of the State's industrial base and its exact position in the industrial map of India. In Table 2.12 an analysis of Kerala's industrial base is carried out in comparison with that of all India.

Table 2.12
Industrial Base of Kerala

Industries	1989-1990					1993-1994				
	Kerala		India			Kerala		India		
	Number of Factories	Percentage share in Kerala's Aggregate Factory Sector	Number of Factories	Percentage share in All-India Aggregate Factory Sector	Percentage share of Kerala in All India Total for Industry	Number of Factories	Percentage share in Kerala's Aggregate Factory Sector	Number of Factories	Percentage share in All India Aggregate Factory Sector	Percentage share of Kerala in All India Total for Industry
1. Food Products	568	16.60	19091	19.29	2.98	578	14.32	21214	18.73	2.72
2. Electricity	4	0.12	164	0.17	2.44	4	0.10	170	0.15	2.35
3. Basic Chemicals	153	4.47	6398	6.47	2.39	212	5.25	8159	7.20	2.60
4. Metal & Alloys	42	1.23	5595	5.65	0.75	37	0.92	6138	5.42	0.60
5. Machinery & Equipment	152	4.44	11681	11.81	1.30	180	4.46	12818	11.32	1.40
6. Cotton Textiles	150	4.38	7340	7.42	2.04	141	3.49	8799	7.77	1.60
7. Rubber, Plastic Petrol and Coal	203	5.93	4674	4.72	4.34	299	7.41	5670	5.01	5.27
8. Beverages and Tobacco	416	12.16	9048	9.14	4.60	388	9.62	5727	5.06	6.77
9. Non – Metallic Mineral Products	442	12.92	8602	8.69	5.14	871	21.59	10198	9.01	8.54
10 Paper and its Products	162	4.73	4787	4.84	3.38	176	4.36	4791	4.23	3.67
11 Transport Equipment	29	0.85	327	0.33	8.87	32	0.79	3754	3.31	0.85
12. Wool Silk and Manmade Textiles	3	0.09	3217	3.25	0.09	3	0.07	3571	3.15	0.08
13. Metal Products	150	4.38	6233	6.30	2.41	152	3.77	6939	6.13	2.19
14. Repair of capital Goods	92	2.69	1314	1.33	7.00	102	2.53	1920	1.70	5.31
15. Gas and Steam	-	-	57	0.06	-	-	-	104	0.09	-
16. Jute Textiles	46	1.34	366	0.37	12.57	54	1.34	368	0.32	14.67
17. Other Manufacturing	22	0.64	1626	1.64	1.35	23	0.57	1887	1.67	1.22
18. Textile products	34	0.99	2784	2.81	1.22	31	0.77	4622	4.08	0.67
19. Leather and its Products	-	-	1196	1.21	-	-	-	1873	1.65	-
20. Wool and its Products	702	20.51	3008	3.04	23.34	686	17.00	3088	2.73	22.22
21. Water works and Supply	7	0.20	98	0.11	7.14	9	0.22	174	0.15	5.17
22. Repair services	45	1.33	1337	1.35	3.37	53	1.42	1260	1.12	4.21
Total	3422	100	98943		100	4035	100	113244	100	

Source: CMIE, Computed from *Profiles of states*, Mumbai, March 1997.

With 1989-1990 and 1993-1994 data, it can be concluded that Kerala has a lop-sided industrial structure with its base consisting of a set of resource-based industries, demand-based industries and capital goods related (e.g., engineering) industries not having a fair share. The study also notes that Kerala tends to specialise in resource-based industries like food-processing (14.32 percent), non-metallic mineral products (21.59 percent) and wood and wood products (17 percent). Concentration on food processing industries shows that they have very little forward linkages.

The growth of the industrial sector can be easily measured in terms of General Index of Industrial Production. The following Table reveals the growth of Kerala industries over the years from 1991-92 to 2001-02.

Table 2.13

Kerala-General Index of Industrial Production

Year	General Index of Industrial Production Base 1980-81	Annual Growth
1991-92	216.21	-
1992-93	217.31	0.50
1993-94	265.30	22.00
1994-95	255.08	(-)3.90
1995-96	255.49	0.10
1996-97	284.05	11.20
1997-98	284.00	(-)0.02
1998-99	324.44	14.24
1999-2000	351.24	8.26
2000-2001	360.20	2.60
2001-2002	302.29	(-)16.08

Source: Compiled and computed from Government of Kerala, State Planning Board, *Economic Review*, (various years).

The growth of Kerala industries had not been uniform throughout the years. The maximum growth was found to be in the years 1993-94 (with 22 percent) 1998-99 (with 14.24 percent) and 1996-97 (with 11.2 percent). The deceleration in growth is seen in the years 1994-95 (-3.9 percent) and 1997-98(-0.02 percent).

The growth of Indian Industries and Kerala industries are not similar. From Table 2.13 when maximum growth of 22 percent was felt in Kerala in 1993-94, the growth in Indian industries was only 6 percent (Table 2.3) and while Kerala industries felt deceleration twice in 1994-95 and 1997-98 Indian industries felt acceleration.

The Planning Commission has fixed a growth rate of 10 percent for the Indian industrial sector and 5.89 percent for the Kerala industrial sector over the Tenth Five Year Plan Period.

Working Factories and Employment

As on 31st March 2002 as seen in Table 2.14 the number of working factories in the private sector was 18038 which is 28 percent more than 14113, the corresponding figure for 1992. The number of working factories in the public sector was 564 units on 31st March 2002 which is 14 percent more than 495, the corresponding figure for 1992. The working factories in private sector increased in number quickly. The private sector factories were able to give employment to 328875 people as on 31st March 2002 as against 108465 in the public sector. The corresponding figures for 1992 were 248198 and 127538 which showed an increase of 32.50 percent in the private sector and a decrease of 15 percent in the public sector. It is surprising to note that over this period of

Table 2.14

Growth of Working Factories and Average Daily Employment in Kerala 1992-2001.

Year	No. of Factories			No. of Employment		
	Private	Public	Total	Private	Public	Total
1992	14113	495	14608	248198	127538	375736
1993	14646	486	15132	277266	111492	388758
1994	14824	481	15305	281669	108591	390260
1995	14840	491	15331	263878	111270	375148
1996	15906	528	16434	293923	111144	405067
1997	16803	533	17336	317592	111248	428840
1998	17177	542	17719	334143	1091698	443841
1999	17955	549	18504	318729	117747	436474
2000	17986	558	18544	336895	101855	438750
2001	18068	553	18621	338764	96154	434918

Source: Government of Kerala, State Planning Board, *Economic Review*(Various years).

11 years the number of employees has come down several times in the public sector and private sector. It is disheartening to note that the total employment provided by the private and public sector together is decreasing in the later years. The maximum employment is seen in the year 2000 at 438750. It decreased to 436410 in 2001 and slightly increased to 437340.

Small, Large and Medium Industries

The industrial structure in Kerala is characterised by significant concentration of small scale industrial units and traditional industries and very low representation of large and medium industrial units.

While the number of small scale industrial units increased from 84440 as on 31st March 1992 to 258010 as on 31st March 2002, the investment as on 31st March 1992 increased from 86386.28 lakhs to 372643.88 lakhs as on 31st March 2002, employment increased from 517992 as on 31st March 1992 to 1173474 as on 31st March 2002 and value of goods produced increased from Rs. 275706.39 lakhs as on 31st March 1992 to 1221437.62 lakhs as on 31st March 2002 as shown in Table 2.15. Over the period the number of industries increased by 205 percent, investments by 331 percent, employment by 127 percent and value of goods by 343 percent. This data reveals the fact that the employment opportunities created by the industrial sector is not increasing proportionately. The growth in investments is marginal. It can be attributed to the facts like recession in the economy and slump in the market. The growth in the small-scale sector in fact was noticed in the repairing and servicing field only. The attitude shift of entrepreneurs to repairing and servicing sector are due to the non-availability of finance, marketing problems due to the changed

industrial scenario on the wake of globalisation, non availability of government incentives etc.

Table 2.16
Large & Medium Industries in Kerala

(As on 31 March)

Year	Units (Numbers)	Investment (in Rs crores.)	Employment (Numbers)
1992	261	2830	101080
1993	310	3114	160850
1994	348	3880	168610
1995	387	4667	168860
1996	395	4783	170860
1997	426	4985	173860
1998	474	5458	174048
1999	511	6604	177295
2000	567	8029	181144
2001	589	8250	183728
2002	647	9500	185825
2003	653	9600	186975

Source: Kerala State Industrial Development Corporation Limited, Thiruvananthapuram.

As per Table 2.16 the large and medium scale units numbered 653 in the year 2002-03. In 2001-02 it was 647 of which 80 percent was owned by private parties, 3 percent was owned by central sector, 10 percent by the state sector, 2.5 percent by co-operative sector and 4.5 percent by joint sector. While the number of large and medium scale industrial units was 511 in 1998-99, 75 percent was owned by private sector. In large and medium industries private sector shows dominance, this is increasing year after year.

Table 2.15
Details of SSI Units in Kerala

Year (As on 31 st March)	Number	Investment (in Rs lakhs)	Employment (in number)	Value of Goods Produced (in Rs Lakhs)
1992	84440	86386.28	517992	275706.39
1993	95851	100888.51	568598	302037.60
1994	110384	117516.26	629543	360794.14
1995	126220	136734.18	703161	380776.88
1996	143123	159187.86	774936	508868.37
1997	160544	192269.07	839596	633011.19
1998	180091	235133.66	909859	744840.46
1999	199827	265343.62	981491	860442.76
2000	219833	305096.73	1053533	977065.49
2001	239896	347061.48	1114495	1099825.30
2002	258010	372643.88	1173474	1221437.62

Source: Directorate of Industries and Commerce, Thiruvananthapuram.

Table 2.17
Comparative Study of Small Scale & Large & Medium Scale Units

Particulars	Small Scale Units			Large & Medium Scale Units		
	1991-92	2001-02	Percent of growth	1991-92	2001-02	Percent of growth
Number of units	84440	258010	206	261	647	147
Investment (in Rs crores)	864	3726	331	2830	9500	235
Employment (Number)	517992	1173474	127	101080	185825	84

Source: Computed from Table 2.15 and 2.16.

The number of large and medium industries increased from 261 in 1991-92 to 647 in 2001-02 showing an increase of 147 percent over the period and the investment in the industries increased from 2830 crores of rupees to 9500 crores of rupees showing an increase of 235 percent over the period and the employment number increased from 101080 in 1991-92 to 185825 in 2001-02 showing an increase of 84 percent over the period (Table 2.17)

Table 2.17, when the performance of small scale and large scale sector are analysed it can be seen that by investing less when compared to large and medium scale sector, small scale sector is able to provide more employment opportunities to the people of Kerala. This is of very importance because one of the important problems of Kerala economy is unemployment. Over the years the employment opportunities in the small scale sector increased by 127 percent while in the large scale sector the increase was only 84 percent. This analysis reveals the fact that small scale sector suits an economy like Kerala. The growth in employment generation, i.e., 5.29 percent (both sector together) in 2001-2002 is insufficient to eradicate the unemployment situation in the State.

State Level Public Enterprises

At the end of the year 2001-2002 there were 112 State Level Public Enterprises (SLPE). The total capital invested in public enterprises in the State as on 31st March 2002 amounted to Rs. 16429.51 crores. During the year, additional investment amounting to Rs.907.30 crores has been made in these enterprises. The overall performance of the SLPE has been similar to that of the previous year. The number of profit making units remained at 36. Though the number of loss making units has come down to 56, the net loss has slightly increased to Rs. 230.17 crores as compared to Rs. 229.58 crores.

The top profit making enterprise is The Kerala Minerals and Metals Limited with a profit of 100.27 crores; second, Kerala State Electricity Board with 62.83 crores and the top loss making is Kerala State Road Transport Corporation with a loss of 160.88 crores.

The overall performance of SLPE is clear from Table No. 2.18.

Table 2.18
Performance of SLPE over the Years
(In Rs crores)

Indicators	Years		
	1999-2000	2000-01	2001-02
Capital invested	13753.15	15522.22	16429.51
Net worth	3060.66	3057.08	3334.64
Capital employed	11336.27	12786.50	13719.79
Turn over	5694.48	6040.92	6115.21
Profit ⁺ /loss	-140.22	-229.58	-230.17

Source: Government of Kerala, Bureau of Public Enterprises, *Review of Public Enterprises in Kerala 2001-02*, (2003).p. XVI.

The poor performance of the public sector industries affected the growth of industrial sector in general in the State.

Central Sector Investment

The Central Sector Investment in some selected states of India and the employment created are given in Table 2.19.

Table 2.19

Central Sector Investment & Employment in Selected States as on 31-3-2002

States	Gross Block (Rs crores)	% of the State to Total	Employment (Number in lakhs)	% of the State to Total
Kerala	13504	2.81	0.40	2.12
Karnataka	18041	3.75	0.94	4.99
Andhra Pradesh	38172	7.94	1.11	5.89
West Bengal	28712	5.98	2.85	15.13
Gujarat	34418	7.16	0.63	3.34
Maharashtra	81278	16.91	2.43	12.90
Orissa	27131	5.65	0.75	3.98
Uttar Pradesh	33551	6.98	1.07	5.68
Assam	21192	4.41	0.60	3.18
Tamil Nadu	33058	6.88	1.10	5.84
India	480518	100	18.84	100

Source: Government of Kerala, State Planning Board, *Economic Review*, 2003, p.S121.

From the above table it is clear that as on 31st March 2002 out of the selected states, Maharashtra enjoys the maximum central sector investment followed by Andhra Pradesh, Gujarat and Uttar Pradesh. Kerala industries get only 2.81 percent of the total investment, which is very low. This shows the ignorance of the central government towards our state. The employment created by these investments varies from state to state. The state which employs more people from these investments is West Bengal, i.e., 15.13

percent from 5.98 percent of investments followed by Maharashtra giving employment to 12.90 percent from 16.91 percent of investments. Regarding Kerala, with 2.81 percent of investments, Kerala is able to give employment to only 2.12 percent of total employment.

The indifferent attitude of the government to the Kerala industries had been the same independent of the political party at the centre. This is evident from Table 2.20.

Table 2.20
Central Sector Investment in Kerala

(In Rs crore)

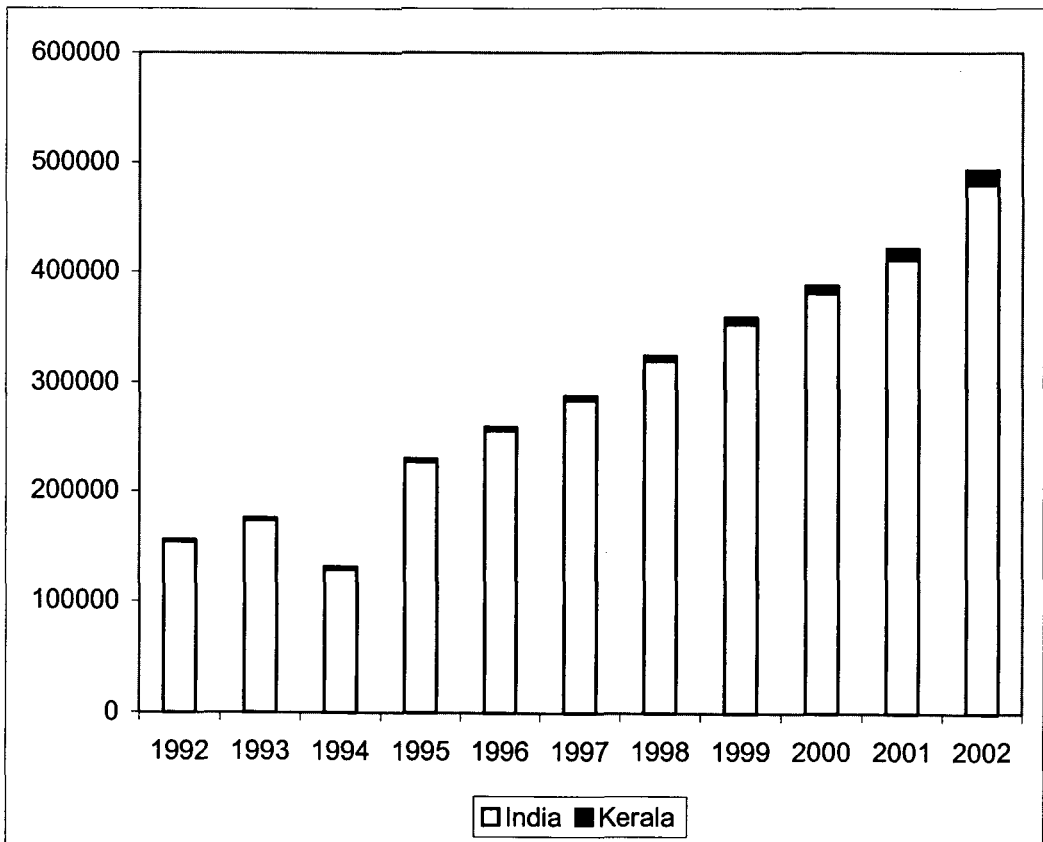
Years as on 31 st March	Investment Gross Block		% of column 3 to column 2
	All-India	Kerala	
1970	3795	116	3.06
1975	6242	202	3.24
1980	18161	423	2.33
1985	47323	831	1.76
1990	113430	1701	1.50
1991	130657	1853	1.42
1992	153893	2000	1.30
1993	173501	2275	1.30
1994	128912	2566	1.29
1995	227349	2906	1.28
1996	256200	3390	1.32
1997	284330	3992	1.40
1998	319829	4717	1.50
1999	353660	5962	1.69
2000	381365	6828	1.79
2001	411865	9893	2.40
2002	480518	13504	2.81

Source: Government of India, *Report of the Public Enterprises Survey*, (various years).

Kerala had been enjoying more help from the central government (around 3 percent) in the seventies. But in eighties and nineties, Kerala received only lesser amount ranging from 1.28 percent to 1.69 percent. In 2002, it has increased to 2.81 percent, which we can hope to increase in the future years. Diagram 2.1 will make this clear.

Diagram 2.1

Central Sector Investment in Kerala and India



Compared to All-India, the industrial sector in Kerala has been stagnant since 1970s. This departure from the All – India pattern may be attributed to the weak inter – industry linkages, high unit cost of production, collective bargaining by unions in the industry etc. The success of industrial concerns

Table 2.21
Industrial Disputes Arose, Handled, Settled, Workers Affected, Man-Days Lost etc. in Kerala

Year	No. of Disputes at the beginning	No. of Disputes Arose During	No. of Disputes Handled during	No. of Disputes settled During	No. of Disputes pending at the end of	No. of Disputes Led to strikes & Lock – outs	No. Workers Affected	Man-Days Lost (In thousand)
1992	5468	7888	13356	7973	5383	70	27652	1939
1993	5383	7234	12617	6695	5922	72	125925	2883
1994	5922	6578	12500	7176	5324	78	63094	2624
1995	5324	6155	11477	6616	4861	82	58298	3102
1996	4861	5874	10740	7437	3303	59	36085	2368
1997	3303	5274	8577	5766	2811	53	34376	1433
1998	2811	5455	8266	4422	3844	50	75183	711
1999	3844	5272	9116	5829	3287	39	12070	1089
2000	3287	5339	8626	6217	2409	73	180264	2320
2001	2409	4123	6532	4291	2241	61	206593	1381
2002	2241	3356	5597	3334	2263	47	36527	1798

Source: Government of Kerala, State Planning Board, *Economic Review* (Various years).

depends to a great extent on the industrial atmosphere and labour relations. For a long time, Kerala industries were characterised by weak employer-employee relationship, political party supported trade union activities and peace-less factory atmosphere. But Table 2.21 reveals that industrial relations in the State have improved.

The number of disputes handled during the period has decreased from 13,356 in 1991-92 to 5597 in 2001-02 i.e. it has decreased to half. The number of disputes leading to strikes and lockouts declined from 70 in 1991-92 to 47 in 2001-02. The number of workers affected had increased up to 2,06,593 in 2000-01, but it is of relief to note that it has come down to 36527 in 2001-02. The number of man-days lost also has declined which shows that industrial relations have improved.

But the fact remains that Kerala is seen by entrepreneurs as a region lacking industrial peace. The political environment may have moulded such a perception. It tends to entail a psychic cost to decision to invest in the State⁷.

The employer-employee relationship has improved. Still the fact remains that Kerala is seen by entrepreneurs as a region lacking industrial peace. Moreover, non-availability of land at affordable prices and the erratic trend in power generation and transmission are very serious threats.

Economic liberalisation by - passed a state like Kerala. It may be noted that we have not yet got an answer to the question why the benefits of centralised economic planning did not reach the state either. The state is far ahead of many other states with regard to social development but it is economically under developed. But according to conventional wisdom a state

which had implemented radical land reforms should have made great strides in agricultural growth which in turn should have triggered industrial growth. But regarding Kerala, agricultural and industrial sector have stagnated after land reforms. George K.K⁸ has proved that states with higher proportions of income originating from industry and mining and states with higher than average per-capita income have benefited from liberalisation. The major beneficiaries of liberalisation have been Maharashtra, Gujarat, Haryana, Punjab, Tamil Nadu and Karnataka. Some of the small states like Goa, Delhi Chandigarh, Daman and Diu, Dadar and Nagar Haveli and Pondicherry have also benefited.

Compared with many other states of India, Kerala is far behind in industrialisation. In order to achieve the Tenth Five Year Plan targets and double the per capita income it is estimated that the annual growth of Kerala industrial sector should be 5.89 percent. This can be achieved only if all, i.e., the government and the people work with team spirit.

Conclusion

The industrial sector in Kerala has been stagnant since 1970s. When the position of Kerala is analysed it can be seen that the contribution of the manufacturing sector towards GDP is very low (around 11 percent only) when compared with the position of India (15 percent). It may be due to the weak inter-industry linkages, power shortage, high unit cost of production and increased prices of land. The entrepreneurs are not coming forward to invest money in Kerala, may be due to the fear of labour union activities.

“The State is in the grip of severe financial crisis as can be seen from the White Paper on State’s finances”⁹. The attitude of the Central Government

towards Kerala industries is also not favourable (clear from Table 2.18 and 2.19). Therefore industries are now forced to depend on the different financial institutions for finance. In the next chapter an attempt is made to find out the financial institutions which helped the industries of Kerala.

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ROLE OF FINANCIAL INSTITUTIONS IN THE INDUSTRIALISATION OF KERALA

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By

JANCY DAVY

Under the supervision of

PROF. (DR.) K. C. VIJAYAKUMAR

Department of Commerce and Management Studies

UNIVERSITY OF CALICUT

P. O. CALICUT UNIVERSITY

MALAPPURAM - KERALA

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CHAPTER III

INDUSTRIAL FINANCE IN KERALA

Introduction

Historically, it has been observed that at lower levels of development, industry is dominated by the processing of primary products. At moderate levels of development industrial activity is devoted more to the production of light consumer products. It is only at higher levels of development that industry acquires the status of capital goods producing sector. At all these levels and for all these products finance is a key input of production, distribution and development. It is therefore aptly described as the “life blood” of industry and is a pre-requisite for accelerating the process of industrial development.

Finance is vital for the industrial development of a country. A number of financial institutions which provide different types of help for industries exist in this country. Unfortunately in Kerala, the growth in industrial finance by financial institutions shows a declining trend.

In this chapter an attempt is made to analyse the role of financial institutions in the provision of industrial finance in India and Kerala. The chapter is divided into two parts_ Part A deals with industrial finance in India and Part B with industrial finance in Kerala.

PART A

Industrial Finance in India

Budgetary resource alone cannot help in achieving the envisaged growth within a projected period of time. The role of financial institutions becomes more crucial when budgetary constraints hinder developmental activities. Financial institutions can supplement resources by mobilising widely scattered savings for investment. The flow of funds for investment purposes from financial institutions assumes more significance in an economic scenario where the role of government is increasingly getting confined to minimum, welfare activities and providing of basic facilities. Table 3.1 reveals how the resources are allocated during the five-year plans.

Table 3.1

Pattern Of Resource Allocation In India's Plan (Percentage)

Plans	Agriculture & Allied Sectors	Power	Industry	Transport & Communication	Social Services
I	37.0	7.6	4.9	26.4	24.1
II	20.9	9.7	24.1	27.0	18.3
III	20.5	14.6	22.9	24.6	17.4
Annual plans	23.8	18.3	24.7	18.5	14.7
IV	23.3	18.6	19.7	19.5	18.9
V	22.1	18.8	24.3	17.4	17.4
VI	22.2	16.7	26.5	16.0	18.6
VII	20.2	17.4	23.7	17.1	21.6
1990-92	20.3	29.2	13.1	19.1	18.4
VIII	20.6	18.7	18.8	18.7	23.2
IX	19.4	25.4	8.2	19.8	27.2

Source: Dhingra, Ishwar.C., *The Indian Economy- Environment & Policy*, New Delhi: Sultan Chand and Sons, 2002, p.180.

From Table 3.1 it is found that the highest allotment to industry was during the Sixth plan (26.5percent) and afterwards the allotment to industry is decreasing. During the Ninth plan, it is seen that the allocation to industry is only 8.2percent while that of agriculture is 19.4 percent, social services 27.2 percent and infrastructure 45.2 percent.

During the pre-independence period, financial constraints had hampered the rapid development of industries in the country. After independence, the government has built up a network of specialised financial institutions with a fairly big capital base to provide financial assistance to all types of industries including small scale industries. In India, in the process of financial deepening, commercial banks had to shoulder special responsibilities for meeting the financial needs of diverse sector of the economy at various stages of development. In the process, they have evolved various modes and instruments of financing, fashioned various organizational innovations, moved away from traditional commercial banking and evolved into development banks, responsive to socio-economic needs.

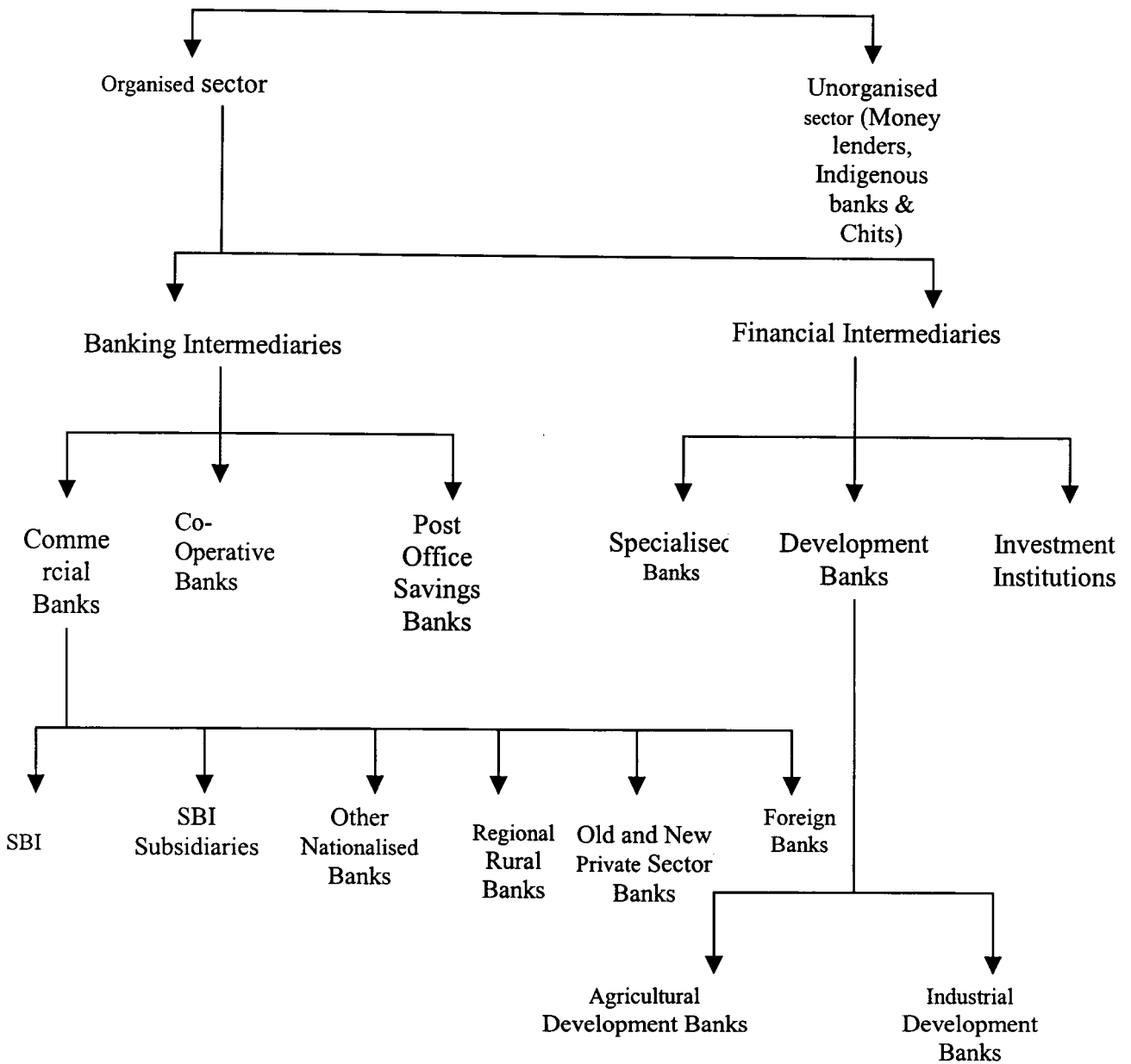
A well integrated network of financial institutions has been developed over the years in the country providing a variety of financial products and services for industrial development. The network comprises 12 institutions at the national level and 46 at the state level. The All India Financial Institutions (AIFIs) comprise six All-India Development Banks (AIDBs), three Specialised Financial Institutions (SFIs) and three Investment Institutions. At the State level, there are 18 State Financial Corporations (SFCs) and 28 State Industrial Development Corporations (SIDCs). The AIDBs are Industrial Development Bank of India (IDBI), Industrial Finance Corporation of India Ltd.(IFCI), Industrial Credit and Investment Corporation of

India Ltd (ICICI), Small Industries Development Bank of India (SIDBI), Industrial Reconstruction Bank of India (IRBI) and Shipping Credit & Investment Company India Ltd. (SCICI). The SFIs comprise Risk Capital and Technology Finance Corporation Ltd. (RCTC), Technology Development and Information Company of India Ltd (TDICI) and Tourism Finance Corporation of India Ltd (TFCI). The Investment Institutions are Life Insurance Corporation of India (LIC), Unit Trust of India (UTI) and General Insurance Corporation of India (GIC). Besides, in the organised sector itself there are banking intermediaries comprising of State Bank of India (SBI), its subsidiaries, nationalised banks, private sector (old and new) banks, foreign banks, Regional Rural Banks and Co-operative Banks¹.

This network is clear from Diagram 3.1

Diagram 3.1

Indian Financial System



Types of Industrial Finance

The entrepreneurs require three types of finance depending upon the nature of the activity, viz., short term, medium term and long term.

Short term finance usually refers to the funds required for a period of less than one year. It is usually required to meet variable, seasonal or temporary working capital requirements.

The period of one year to five years may be regarded as a medium term. It is required mainly for permanent working capital, small expansions, replacements, modifications etc.

A period exceeding five years is usually regarded as long term finance. It is required for procuring fixed assets, establishment of new business, substantial expansion of existing business, modernisation etc.

The type and source of finance is clear from Table 3.2.

Table 3.2

Types & Sources of Finance

Short Term	Medium Term	Long Term
1. Bank credit	1. Issue of shares	1. Issue of shares
2. Trade credit	2. Issue of debentures	2. Issue of debentures
3. Instalment credit	3. Loan from banks & other financial institutions	3. Loans from financial institutions
4. Customer advances	4. Public deposits	4. Ploughing back of profits
	5. Ploughing back of profits.	

A brief description of the various institutions providing industrial finance is given below.

Industrial Development Bank of India (IDBI)

Established on July 1st 1964, IDBI has had a pioneering role in fulfilling its mission of promoting industrial growth in tune with national plans and priorities. IDBI has been operating for more than two decades as the apex national development bank in the field of industrial finance in India. During the first twelve years, it operated as a wholly owned subsidiary of the Reserve Bank of India (RBI). Backed by the financial support, experience and authority of the RBI, the IDBI introduced new schemes to assist projects in less developed areas, new and small entrepreneurs and ensured better co-ordination among development financial institutions. To diversify its responsibilities legislation was enacted in 1975 to constitute it as a wholly owned undertaking.

Industrial Finance Corporation of India (IFCI)

The Industrial Finance Corporation of India was established on 1st July 1948 as the first development financial institution in the country to make the medium and long term finance more readily available to industrial concerns in India. The constitution of IFCI was changed from a statutory corporation to a company under the Companies Act 1956 on 21st May 1993. The main objects of company include providing financial assistance to industrial and service sector in the form of short, medium or long term loans or working capital facilities or equity participation.

Industrial Credit and Investment Corporation of India (ICICI)

The ICICI was set up in 1955 to encourage and assist industrial development and investment in India. It provides finance in the form of equity participation, sponsoring and underwriting new issue of shares and securities, guaranteeing loans from other sources, making funds available for reinvestment by revolving fixed investment and furnishing managerial technical and administrative advice and assistance in obtaining similar services for Indian industry. The primary purpose for which assistance is extended is the purchase of capital assets in the form of land, buildings and machinery.

Small Industries Development Bank of India (SIDBI)

In response to a long standing demand from the small scale sector for an apex level national institution for promotion, finance and development of industries in the small scale sector SIDBI was started and it commenced its operation on April 2, 1990. SIDBI's activities include refinancing of term loans and discounting and rediscounting of bills. It provides assistance for the development of making infrastructure, creating new channels for the products of Small Scale industrial (SSI) units and direct assistance for the development of industrial area.

Industrial Reconstruction Bank of India (IRBI)

The IRBI was set up in the context of the growing menace of industrial sickness. IRBI provides financial assistance to industrial enterprises by way of term loans, underwriting of shares, bonds and debentures and guarantee for loans and deferred payments. The function of IRBI was being carried out with more emphasis on the rehabilitation of sick and weak units. The Government of India with a view to

making this institution a healthy and vibrant one, withdrew the restriction regarding assisting only sick and weak units and allowed IRBI to assist non-sick units as well.

Shipping Credit and Investment Company of India Ltd. (SCICI)

The SCICI Ltd was incorporated under the Companies Act on December 8, 1986 as a specialised development financial institution to encourage and assist development and investment in shipping, fishing and related industries, primarily by providing financial assistance to private sector enterprises in India. The SCICI has been notified as an All-India public financial institution and as an agent of the Government of India.

Risk Capital and Technology Finance Corporation Ltd. (RCTC)

The RCTC was established in January 1988 on the reconstitution of the Risk Capital Foundation (RCF) which was set up by IFCI in 1975 for enlarging the entire entrepreneurial base for medium scale units and to help the development of indigenous technologies. It provides risk capital assistance to first generation entrepreneurs and technology finance for projects envisaging advancement, promotion, transfer, adaptation and commercialisation of new technologies. The assistance is in the form of conventional loans or interest-free conditional loans on a profit and risk sharing basis with the project promoters.

Technology Development and Information Company of India Ltd (TDICI)

TDICI was incorporated under the companies Act by the ICICI and UTI in July 1988 as India's first venture finance company. It primarily assists small and medium scale projects conceived by technocrat entrepreneurs including first

generation entrepreneurs by project loans, direct subscription to equity and conditional loans. It works closely with research and development organizations, industrial associations, professional groups and experts in various technologies and industries. It also provides a modern technology information service.

Tourism Finance Corporation of India Ltd. (TFCI)

The TFCI was set up as a specialised All-India Financial Institution as a public limited company under the Companies Act, 1956 on 27th January 1989 with the main object of commencing and carrying on the business of assisting industrial, commercial, professional and trading enterprises engaged in setting up or developing tourism or related activities. The Department of Tourism, Government of India has extended to TFCI the schemes of interest subsidy on loans for hotel projects.

Life Insurance Corporation of India (LIC)

Life Insurance Corporation of India Ltd. was constituted under the LIC Act in 1956 after taking over life insurance business from private companies to carry on the business of life insurance and deploy the funds in accordance with the plan priorities. The objective of the nationalisation of life insurance business was to take insurance to the neglected areas within the country and utilise the savings of the people in such activities as would ensure not only the safety of capital but also help in the rapid economic development of the nation. As a matter of fact, it is the largest single investor in the country today. It invests its funds in well-established joint stock companies, which have been regularly paying a good dividend to their shareholders.

Unit Trust of India (UTI)

The UTI, established by an Act of Parliament in 1964, plays an important role in tapping the investors through the sale of units and channelising them into corporate investments, so as to provide for growth and diversification of the economy. The UTI has introduced new schemes at regular intervals to meet the need of diverse sections of investors. From April 1986 after an amendment to its Act, UTI can extend assistance to the corporate sector by way of term loans, bills rediscounting, equipment leasing and hire purchase financing.

General Insurance Corporation (GIC)

General insurance was handled by a number of Indian and foreign companies which were nationalised in 1972. The GIC has four subsidiaries, viz., National Insurance Company Ltd., New India Assurance Company Ltd, United India Insurance Company Ltd. and The Oriental Insurance Company Ltd .The GIC is the holding company and its direct business is restricted only to aviation insurance. General insurance is handled by the subsidiaries of GIC.

In the cumulative sanctions of AIFIs up to end March 2001, IDBI accounted for a share of 13.98 percent, IFCI 3.92 percent ICICI 13.94 percent, UTI 4.22 percent, LIC 3.16 percent, NABARD 4.9 percent and NCDC 55.9 percent².

Having described the institutions giving industrial finance in India it seems fair to analyse the disbursement of loans by these institution to various states in India. Table 3.3 reveals the financial assistance disbursed by the major All-India Financial Institutions to different states during 2000-01.

Table 3.3

State-wise Financial Assistance Disbursed by All-India Financial Institutions
During 2000-01

(In Rs. Crores)

Sl. No.	States	IDBI		IFCI		ICICI	
		Assistance	% to Total	Assistance	% to Total	Assistance	% to Total
1	Andhra Pradesh	1473.7	8.8	490.7	23.1	842.3	2.6
2	Assam	32.7	0.2	8.1	0.4	122.9	0.4
3	Bihar	29.2	0.2	4.7	0.2	58.0	0.2
4	Gujarat	844.1	5.0	186.1	8.8	2324.6	7.3
5	Haryana	615.7	3.7	24.8	1.2	818.8	2.6
6	Karnataka	1545.1	9.2	143.2	6.8	1969.5	6.2
7	Kerala	177.0	1.1	20.0	0.9	104.5	0.3
8	Madhya Pradesh	357.3	2.1	33.3	1.6	461.6	1.4
9	Maharashtra	4218.0	25.2	288.5	13.6	8996.5	28.1
10	Orissa	204.6	1.2	38.1	1.8	531.1	1.7
11	Punjab	803.1	4.8	27.9	1.3	637.0	2.0
12	Rajasthan	636.0	3.8	5.0	0.2	630.3	2.0
13	Tamil Nadu	1201.2	7.2	94.2	4.4	2135.6	6.7
14	Uttar Pradesh	617.9	3.7	81.6	3.8	1485.3	4.6
15	West Bengal	849.2	5.1	184.6	8.7	2040.4	6.4
Total		13605.0	81.4	1631.0	76.9	23158.0	72.5
All-India		16724.0	100.0	21.21	100.0	31965.0	100.0

Source: Government of Kerala, State Planning Board, *Economic Review*, 2002, p.363.

From Table 3.3 it can be seen that out of the major states Maharashtra received the maximum i.e. 25.2 percent of IDBI disbursements, 13.6 percent of IFCI disbursements and 29.1 percent of ICICI's disbursements. Next major recipients are Andhra Pradesh, Karnataka, Gujarat, and West Bengal. With regard to assistance disbursed by AIFIs, Kerala lags behind and the share of assistance availed has been nominal. Kerala enjoyed only 1.1 percent of IDBI disbursements, 0.9 percent of IFCI disbursements and 0.3 percent of ICICI's disbursements. The percentage of disbursements to the state out of a total 508010 crores of rupees of IDBI, IFCI and ICICI in 2000-01 was only 0.59 percent. In the case of other states in South India, though the percentage of disbursements showed more or less mixed trends, the rates were more than that of Kerala.

Banking Intermediaries

Commercial banking the world over has undergone rapid transformation which is marked by de-regulation, increasing competition, introduction of new technology, and a greater reliance on the market forces. There had been significant and far-reaching developments in the Indian and International banking industry during the last few years. The world has entered into an era of intense competition and India would have to gear itself up to play an effective role in the changing environment by improving its competitiveness, productivity and cost effectiveness. The commercial banks have diversified their activities on an accelerated pace to cater to the sophisticated needs of corporate clients and other segments of industry and trade.

Banking in India on modern lines started by the English Agency Houses at Calcutta and Bombay in the eighteenth century now offers a curious combination of excellence and mediocrity. If the public sector banks are gigantic, the private sector banks are fleet-footed and the foreign banks are technology-savvy. The banking intermediaries comprise State Bank of India and its subsidiaries (8) nationalised banks (19) private sector 30 (22 old and 8 new) banks, Foreign banks (40), Regional Rural Banks (196) and Co-operative banks (68) as on 31st March 2002³.

Commercial banks provide short term and medium term financial assistance. The short term credit facilities are granted for working capital requirements. The medium term loans are for the acquisition of land, construction of factory premises and purchase of machinery equipment. These loans are generally granted for periods ranging from five to seven years. They also establish letters of credit on behalf of their clients favouring suppliers of raw materials as machinery which extend the banker's assurance for payment and thus help their delivery. Commercial banks issue guarantee also. In some cases, they advance on a long term basis. In the case of large advances they do it by way of consortium with other banks.

Credit disbursements of scheduled commercial banks in India underwent substantial structural changes during 1990s. These changes reflect both the expansion of the sources of funds available to enterprise, particularly of the large businesses and also a change in life styles of the rising middle classes. The expansion of sources of finance to enterprises during the mid 1990s threatened the intermediation role played by the commercial banks in channelising the house hold savings into investments in businesses. However, a rise in living standards and aspiration of the middle classes

that led to a new culture of consumers helped commercial banks rediscover themselves.

Table 3.4
Distribution by Population of Bank Credit

Year	Distribution by Population (in percentage)				
	Rural	Semi Urban	Urban	Metropolitan	Total
1991-92	20.13	16.70	22.04	41.12	100
1992-93	18.70	15.61	20.69	45.00	100
1993-94	17.55	15.06	20.57	46.83	100
1994-95	15.90	15.08	17.67	51.36	100
1995-96	15.16	14.48	17.43	52.92	100
1996-97	14.16	14.28	18.21	53.35	100
1997-98	14.59	14.10	18.13	53.19	100
1998-99	14.10	14.33	18.49	53.08	100
1999-00	12.92	14.08	17.30	55.70	100
2000-01	12.79	13.21	17.70	56.30	100

Source: CMIE, *Money & Banking*, Mumbai. (Various Years).

Table 3.4 reveals the share of different categories of population in the bank credit. The share of rural population enjoying bank credit has decreased much i.e. from 20.13 percent in 1991-92 to 12.79 percent in 2000-01. The share of semi – urban population also has decreased; the share of metropolitan population has been increasing year after year from 41.12 percent in 1991–92 to 56.3 percent in 2000-01.

Table 3.5

Distribution by Population of Bank Offices by Area

Year	Rural		Semi Urban		Urban & Metropolitan		Total	
	Number	% to total	Number	% to total	Number	% to total	Number	% to total
1994-95	33017	51.74	13502	21.16	17298	27.10	63817	100
1995-96	32981	51.17	13731	21.30	17744	27.53	64456	100
1996-97	32909	50.54	13931	21.40	18271	28.06	65111	100
1997-98	32854	49.91	14174	21.53	18800	28.56	65828	100
1998-99	32840	49.25	14348	21.52	19489	29.23	66677	100
1999-00	32673	48.72	14580	21.74	19809	29.54	67061	100
2000-01	32640	48.34	14700	21.77	20185	29.89	67525	100

Source: CMIE, *Money & Banking*, Mumbai. (Various years).

Table 3.5 reveals the fact that out of the total number of branches nearly half of the branches are situated in the rural areas (51.74 percent in 1994-95 and 48.34 percent in 2000-01). The proportion of semi-urban branches in the total remains almost the same. When the position of urban and metro branches is analysed it can be seen that it has increased. The decrease in the proportion of rural branches is due to the urbanisation of some rural areas and the opening of new branches in the cities. This indicates the increase in the banking transactions in the urban area which is due to the increase in the urban population⁴.

Banking statistics show that SCB lending to the industrial sector remained stagnant at 48-49 percent of its total lending through most of the 1990s and afterwards, it has decreased. Table 3.6 reveals this. The contribution of banks to the small scale sector seems to be reducing year after year.

Table 3.6

Commercial Bank Credit to Industries

Year	% Share of Industries in Total Bank Credit	% Share of Small Scale Industries in Total Bank Credit
1992	47.50	12.69
1993	48.60	11.87
1994	48.15	11.97
1995	45.61	10.84
1996	48.00	10.73
1997	49.34	10.06
1998	48.83	9.27
1999	49.15	8.89
2000	46.47	8.21
2001	43.91	7.24

Source: CMIE, *Money and Banking* Mumbai, (Various Years).

The new Industrial Policy 1991 led to delicensing and decontrols and these in turn led to increased industrial investments. Liberalisation of the capital markets early in 1992 led to the opening of Indian and foreign capital markets to the Indian enterprises. The existing enterprises and start ups financed these investments largely by tapping the household savings directly through the primary capital markets. Public offering of equity seemed more attractive than bank borrowings. The Initial Public Offerings and Rights Issues boom that ensued reduced the need for the corporate resort to bank borrowings or even institutional borrowings.

The relative role of commercial banks reduced in spite of the fact they were permitted to provide long term capital, hitherto the preserve of the financial

institutions alone. As a result, in spite of booming industrial investments scenario during the mid 1990s SCB's lending to the industrial sector remained steady at 48-49 percent of total lending. The share declined later in 2001. SCB lending to the small-scale sector has declined consistently during the 1990s. The small-scale sector accounted for 12.69 percent of total in 1992. This fell to 7.24 percent in 2001.

The exposure of SCBs to the industrial sector declined sharply during 1990s in terms of number of accounts. The number of industrial accounts in all SCBs had peaked at about 63 lakhs in 1992. Since then this declined sharply to 47 lakhs in 2001. (Table 3.7) However, the percentage of industrial accounts to total number of accounts remained steady at 8-9 percent except in 1992 and 2000.

Table 3.7

Industrial Accounts of Commercial Banks

Year	Number of Industrial Accounts	Total Number of Accounts	% of Industrial Accounts to the Total Number of Accounts
1992	6297085	65860730	9.56
1993	5499230	62116396	8.85
1994	5152101	59650805	8.63
1995	4948029	58097104	8.52
1996	4623051	56672429	8.16
1997	4427994	55617917	7.96
1998	4368415	53583956	8.15
1999	4752329	52305456	9.08
2000	5354140	54370397	9.85
2001	4712767	52364395	8.99

Source: CMIE, *Money and Banking*, Mumbai, (Various years).

Small size loans continue to dominate the lending of SCBs to the industrial sector. In 2000-01 69 percent of the total industrial loans accounts were of a size less than Rs. 25000 each. These together accounted for only 1 percent of the outstanding loan to the industrial sector. In 1991-92, such loans had a share of 88 percent in terms of number of accounts and 4 percent in terms of total outstanding loans⁵.

Table 3.8 throws light on the primary functions of commercial banks over years.

Table 3.8
Credit and Deposit per Capita & per Office

Year	Credit Per Capita (Rs.)	Deposit Per Capita (Rs.)	Credit Per Office (Rs. Crore)	Deposit Per Office (Rs. Crore)	Credit-Deposit Ratio (%)
1991-'92	1536	2775	2.12	3.82	55
1992-'93	1776	3153	2.47	4.38	56
1993-'94	1867	3586	2.63	5.04	52
1994-'95	2330	4261	3.32	6.06	55
1995-'96	2740	4680	3.94	6.73	59
1996-'97	2952	5362	4.28	7.77	55
1997-'98	3379	6241	4.92	9.09	54
1998-'99	3783	7323	5.53	10.71	52
1999-'00	4399	8207	6.50	12.13	54
2000-'01	5079	9559	7.76	14.61	53

Source: CMIE, *Money & Banking*, Mumbai. (Various years).

From Table 3.8 it can be seen that only 50-55percent of the deposits are advanced by the scheduled commercial banks of India. It is in the above context that

the latest valedictory address of Reserve Bank of India's Deputy Governor, Rakesh Mohan at the Bank Economists Conference 2002 comes as a refreshing change. He has castigated the banks for indulging in lazy banking in the context of their large investments in Government securities well beyond the statutory requirements of 39 percent against 25 percent of Demand and Time Liabilities. "There is a danger", he said "of the link between liquidity, credit money and economic activity being severed in the long run as a result of continued over-investment in government securities as a substitute for bank financing to the commercial sector"⁶. Rakesh Mohan has sought to sensitise the banking community on their failures in three other fronts, first, banker's refusal to bring down their lending rates commensurate with the decline in the inflation rate, resulting in high effective real lending rate, second, the banker's behaviour in both the quantum of credit extended and the high cost lending in the post-reform period and third, the limited accessibility of small and medium enterprises to bank funds.

Non-Performing Assets (NPAs)

One of the thorniest issues for the Indian financial institutions has been that of NPAs. They are inevitable burden on the financial institutions. With a view to moving towards internationally accepted norms for asset classification and income recognition, RBI has been tightening the definition of NPAs in a phased manner. Thus from the norm of classifying only those assets as non-performing which are four quarters past due, which was applicable until 1993, RBI moved to the norm of three quarters past due in 1994 and then to two quarters (180 days) past due in 1995. In 2001 RBI tightened this further by removing the 'past due' concept. RBI has now

advised banks to move to the 90 days norm for recognizing loans as non-performing with effect from March 31, 2004.

The NPAs of Indian banks for the period from 1998 to 2001 are revealed in Table 3.9.

Table 3.9
Non-Performing Assets of Indian Banks
(In Rs. Crores)

Assets	1998	1999	2000	2001
Standard	301881	340714	414917	494716
Sub Standard	17428	19928	19594	18206
Doubtful	27146	31350	33688	37756
Loss	6242	7444	7558	8001
Total NPA	50815	58722	60840	63963
Total Advances	352696	399436	475757	558679
% of NPA to Advances	14.41	14.70	12.79	11.45

Source: CMIE, *Money and Banking*, Mumbai 2002, p.303.

Over a period of four years, even though NPAs have increased by 64percent, it is happy to see that the proportion of NPAs to total advances is decreasing (from 14 percent to 11 percent).

The banking sector that had been grappling with the NPA menace for so long got a major boost with the passage of the Securitization Act (Securitization and Reconstruction of Financial Assets and Enforcement for Security Interest - SARFAESI) Act in November 2002, which seeks to alter the way in which the NPA

of the banks and financial institutions are recovered. The high level of NPAs has largely been due to the inadequacies in the credit recovery processes arising from the insufficient legal provisions on foreclosure and bankruptcy and long drawn legal procedures. The government, in conjunction with the RBI has earlier resolved to deal with this accumulating bad debt legacy in numerous ways. The SARFAESI Bill is the latest in the series that aims to strengthen the creditors' rights through foreclosure and enforcement of securities by banks and financial institutions. It confers on the lenders the right to seize and sell the assets that are held as collateral in respect of overdue loans promptly, without going through a costly and time consuming legal process, if creditors accounting for 75 percent or more of the secured lending agree to initiate the recovery proceedings.

It would be certainly befitting to acknowledge that the law paves the way for improving the financial health of the banks and financial institutions, thereby enabling them to play a more efficient and effective role in overall economic development.

With competition becoming acute, every bank needs to identify certain niche markets or segments that it can effectively cater to. Banks will have to rely on a strategy of building and sustaining close relationship with the customer and offering superior customer service to stay in the market. The battle for the customer will therefore be fought through relationship building rather than pricing.

PART B

Industrial Finance in Kerala

The major sources of finance for investment in the industrial sector in the state of Kerala are the budgetary support from the State Government of India under various



Centrally Sponsored Schemes, institutional finance from agencies such as IDBI, IFCI, SIDBI & ICICI, assistance from commercial banks and private investment ⁶

Table 3.10

Allocation of Five Year Plan Resources

(In Rs. Crores)

Plan	Year	Agriculture & Irrigation		Industry	
		Amount allocated	% to total	Amount allocated	% to total
I	1951-1956	7.50	29.3	0.50	1.9
II	1956-1961	22.27	27.8	6.04	7.5
III	1961-1966	47.15	25.9	14.37	7.9
Annual Plans	1966-1969	49.98	34.6	13.35	9.2
IV	1969-1974	85.10	25.9	25.02	7.5
V	1974-1978	158.20	32.6	54.06	11.1
Annual Plans	1978-1980	142.13	33.2	67.07	15.6
VI	1980-1985	631.76	36.0	166.30	9.7
VII	1985-1990	789.94	32.4	272.60	11.2
Annual Plans	1990-1992	463.03	33.5	151.0	10.9
VIII	1992-1997	2177.18	29.9	869.35	11.9
IX	1997-2002	2419.40	29.9	1125.86	11.1

Source: Menon, T. Madhava (Ed.), *Five Year Plans, Handbook Of Kerala – Volume I* Thiruvananthapuram: The International School of Dravidian Linguistics, 2000, p.287.

From Table 3.10 it is found that the amount allocated to the industrial sector out of the Five Year plan resources is found to be between 10-15percent during almost all the Five Year plans

Table 3.11

Budget Estimate and Amount Spent Towards Industry

Year	Budget Estimate (in Rs Lakhs)	Amount Spent (in Rs Lakhs)	% to Total
1993-'94	3772.49	3813.40	101.08
1994-'95	37.82.00	3745.40	99.03
1995-'96	4674.65	4660.41	99.70
1996-'97	4308.00	4289.72	99.58
1997-'98	4056.50	4063.58	100.17
1998-'99	3215.61	3206.40	99.71
1999-'00	4074.00	3480.68	85.44
2000-'01	3813.00	2893.50	75.89
2001-'02	4845.50	3479.82	71.82
2002-'03	4900.28	4503.43	91.9

Source: Directorate of Industries and Commerce, Thiruvananthapuram.

From Table 3.11 it can be seen that the budget estimate is increasing year after year. It has increased from Rs. 3772.49 lakhs in 1993-94 to Rs. 4900.28 lakhs in 2002-03. The budgetary support so far provided by the State has been negligible when compared to the total investment in the industries sector⁸.

Central Public Sector Investment

The Government of India invests money in the Central Public Sector Units. But from Table 2.20 the central sector investment in the industries of Kerala had been nominal. It is not sufficient to accelerate the pace of industrial development activities in the State.

In short, the investment from the governmental side is quite inadequate to give a big push to the industrial sector in Kerala.

All India Financial Institutions

It is widely recognised that financial institutions play an important role in development by mobilising widely scattered savings for productive investment. To this end, a number of financial institutions have been set up in the public sector and mandated to play a developmental role rather than act as purely commercial institutions. Financial Sector Reforms pursued by the Centre over the last ten years have tended to weaken the developmental role of financial institutions and promotes an exclusively commercial orientation. Freeing the financial sector in various ways has led to greater inequality in access to institutional finance among various states. Table 3.12 reveals the contribution of IDBI, IFCI, and ICICI towards industrial sector.

Table 3.12

State-wise Financial Assistance Disbursed by All-India Financial Institutions as at the end of March 2001.

(In Rs. Crores)

States	IDBI	% to total	IFCI	% to total	ICICI	% to total	Grant Total	% to total
1. Andhra Pradesh	13299.0	9.1	3444.0	8.4	7718.4	5.3	24461.4	7.3
2. Assam	615.0	0.4	305.6	0.7	540.7	0.4	1461.3	0.4
3. Bihar	1056.1	0.7	103.8	0.3	427.9	0.3	1587.8	0.4
4. Gujarat	20890.0	14.3	6440.2	15.7	21979.0	15.0	49309.2	14.7
5. Haryana	59.4	0.0	1112.3	2.7	3430.5	2.3	4602.2	1.3
6. Karnataka	10507.0	7.2	2562.2	6.1	9853.2	6.7	22862.4	6.8
7. Kerala	2287.6	1.6	3440.0	0.8	1056.2	0.7	3687.8	1.1
8. Madhya Pradesh	6721.5	4.6	2112.0	5.1	3699.9	2.5	12533.4	3.7
9. Maharashtra	28281.0	19.3	7257.7	17.6	42562.0	29.1	113639.4	44.7
10. Orissa	2858.5	2.0	920.0	2.2	1975.9	1.4	5754.4	1.7
11. Punjab	4415.8	3.0	2002.3	4.9	1912.8	1.3	6328.6	1.8
12. Rajasthan	7175.0	4.9	1700.4	4.1	3999.0	2.7	12874.4	3.8
13. Tamil Nadu	13206.0	9.0	3237.3	7.9	11780.0	8.1	28223.3	8.4
14. Uttar Pradesh	10432.0	7.1	4351.1	10.6	6653.7	4.6	21436.8	6.4
15. West Bengal	6430.5	4.4	1485.9	3.6	7883.4	5.4	15799.8	4.7
Total	128234.0	87.5	37318.8	90.7	125472	85.8	291024.8	87.2
All India Total	146539.0	100.0	41129.8	100.0	146167	100.0	333835.8	100.0

Source: Government of Kerala, State Planning Board, *Economic Review*, 2002, p.S 365.

Both in absolute and relative terms, the financial assistance given by AIFIs to Kerala industries has been very low. It is distressing to note that the continuous lower disbursement has affected the cumulative total also. It has resulted in wide disparities between Kerala and other states in South India in this respect. While taking the total financial assistance granted by IDBI, IFCI & ICICI, Kerala's share has come to only Rs. 3687.8 crores (1.1percent) whereas Maharashtra records the highest (44.7percent).

Small Industries Development Bank of India (SIDBI)

SIDBI, Cochin is a subsidiary of Industrial Development Bank of India (IDBI) and is one of the principal financial institutions in the state for promotion of small scale industries.

The economic policies of indiscriminate liberalisation, privatisation and opening up being pursued by the central government have created a situation where Indian industries in general and small-scale sector in particular are seriously threatened. Removal of Quantitative Restrictions (QRs) on import and dereservation of areas of production hitherto reserved for the small-scale sector are affecting small-scale industry badly. The role of SIDBI in this context is therefore relevant. The SIDBI provides refinance under automatic and normal refinance scheme for term loans granted by banks and financial institutions.

The SIDBI is operating the National Equity Fund Scheme (NEF) for equity participation in small industrial units.

Table 3.13 reveals the contribution made by SIDBI to Kerala Industries over the years.

Table 3.13

Small Industries Development Bank of India's Assistance to Small Industries

(In Rs. Crores)

Year	Sanction and Disbursement				Performance-Kerala as percentage of All-India	
	All India		Kerala		Sanction	Disbursement
	Sanction	Disbursement	Sanction	Disbursement		
1990-'91	2410	1839	110	91	4.56	4.95
1991-'92	2847	2028	124	109	4.36	5.37
1992-'93	2909	2146	136	119	4.68	5.55
1993-'94	3356	2673	117	100	3.49	3.74
1994-'95	4707	3390	164	129	3.48	3.81
1995-'96	6066	4801	231	186	3.81	3.87
1996-'97	6485	4585	326	261	5.03	5.69
1997-'98	7484	5241	392	291	5.24	5.55
1998-'99	8880	6285	348	205	3.92	3.26
1999-'00	10265	6964	356	317	3.47	4.55
2000-'01	10821	6441	556	389	5.14	6.04
2001-'02	9026	5919	535	396	5.93	6.69

Source: Small Industries Development Bank of India, Ernakulam.

It is found that SIDBI has sanctioned below 6 percent and disbursed below 7 percent of its total funds to Kerala industries which is significant when compared to the population of Kerala i.e. only 3.09 percent of all India population. It is praiseworthy to see that the contribution of SIDBI is increasing year after year.

Commercial Banks

The banking intermediaries of Kerala comprise State Bank of India and its subsidiaries, nationalised banks, private sector (old and new) banks, foreign banks, Regional Rural Banks and Co-operative banks. Long before independence itself, the banking in Kerala was unique in several aspects. The early banks had commercial

relationship and they were of unit type. They were conducting chitties/kuries. Since they could not meet the large demand from the productive activities, other forms of banking activities started. At present, Kerala State has an excellent network of branches with 3363 branches with deposits amounting to Rs. 5939936 lakhs, advances amounting to Rs. 2700653 lakhs and Credit-Deposit ratio of 45.47percent as on 31st March 2003.

The performance of commercial banks over the previous years is shown in Table 3.14.

Table 3.14
Highlights of Performance for Thirteen Years of All Banks in Kerala
(In Rs. Lakhs)

As on 31 st March of	Number of Branches	Total Deposits Excluding Bank Deposits	Annual Growth (%)	Total Advances Excluding Advances to Banks	Annual Growth (%)	C-D Ratio
1990	2829	662007.68	-	411815.97	-	62.21
1991	2839	785766.90	18.7	463818.73	12.6	59.10
1992	2851	967092.06	23.1	500296.21	7.9	51.73
1993	2887	1211223.73	25.2	5 81798.99	16.3	48.03
1994	2969	1494106.40	23.4	644153.77	10.7	43.00
1995	3038	1745791.10	16.9	779652.40	21.0	44.66
1996	3066	2017129.20	15.5	896090.08	14.9	44.42
1997	3106	2335356.20	15.8	1056510.20	17.9	45.24
1998	3147	2755205.50	18.0	1236424.10	17.0	44.88
1999	3189	3153183.10	14.4	1357663.70	9.8	43.06
2000	3224	3861883.32	22.5	1594086.47	17.4	41.28
2001	3281	4485015.97	16.1	1918027.20	20.3	42.77
2002	3318	5165578.45	15.2	2206194.00	15.0	42.71

Source: State Level Bankers' Committee, Thiruvananthapuram.

The working of commercial banks would be clearer by going through Table 3.14.

Over thirteen years while the number of branches increased only once the total deposits increased 8 times and advances by 5 times. As the advances increase slowly when compared to deposits, C-D Ratio in Kerala is low.

The network of branches of commercial banks in Kerala is revealed when the position of Kerala is compared with other states of India (Table 3.15)

Table 3.15

State-wise Distribution of Commercial Bank Branches and Population per Bank Office

States	Number of Branches at the End of June 1969	% to Total Number of Offices	Number of Branches at the End of June 2002	% to Total Number of Offices	Average Population Per Bank Branch (in Thousands) at the End of	
					June 1969	June 2002
Andhra Pradesh	567	6.9	5207	7.8	74	15
Assam	74	0.9	1223	1.8	193	22
Bihar	273	3.3	3564	5.4	207	21
Gujarat	852	10.3	3657	5.5	34	14
Haryana	172	2.1	1551	2.3	97	13
Karnataka	756	9.2	4779	7.2	37	11
Kerala	601	7.3	3334	5.0	34	10
Madhya Pradesh	343	4.2	3458	5.2	116	18
Maharashtra	1118	13.5	6320	9.5	43	15
Orissa	100	1.2	2227	3.4	211	16
Punjab	346	4.2	2573	3.9	42	9
Rajasthan	364	4.4	3336	5.0	68	17
Tamil Nadu	1060	12.8	4748	7.2	37	13
Uttar Pradesh	747	9.0	8169	12.3	114	20
West Bengal	504	6.1	4430	6.7	85	18
Total	7877	95.3	58576	88.3	-	-
All India	8262	100	66355	100	65	16

Source: Government of Kerala, State Planning Board, *Economic Review*, 2002, p.S367.

The number of bank branches in Kerala increased from 601 in 1969 to 3334 in 2002 i.e. by more than 5 times. Even if the proportion of number of Kerala offices to all India figure decreased from 7.3 percent to 5 percent, it is a significant achievement. Again, the average population per bank branch in Kerala was 34000 in 1969, which is reduced to 10000 in 2002, which is far above the national average. It is also a great achievement. As per the latest data available the number of offices in Kerala at the end of June 2003 is 3370 which is 5.1 percent of the total offices in India and the average population per bank branch remains the same at 10,000 itself.

Table 3.16

Banking Indicators of Kerala and India

Year	Credit Per Office (Rs. Crore)		Deposit Per Office (Rs. Crore)		C-D Ratio (%)	
	Kerala	India	Kerala	India	Kerala	India
1991-'92	1.75	2.12	3.39	3.82	51.73	55.0
1992-'93	2.02	2.47	4.20	4.38	48.03	56.0
1993-'94	2.17	2.63	5.03	5.04	43.00	52.0
1994-'95	2.57	3.32	5.75	6.06	44.66	55.0
1995-'96	2.92	3.94	6.58	6.73	44.42	59.0
1996-'97	3.40	4.28	7.52	7.77	45.24	55.0
1997-'98	3.93	4.92	8.76	9.09	44.88	54.0
1998-'99	4.26	5.53	9.89	10.71	43.06	52.0
1999-'00	4.94	6.50	11.98	12.13	41.28	54.0
2000-'01	5.85	7.76	13.67	14.61	42.77	53.0
2001-'02	6.65	N-A	15.57	N-A	42.71	55.2
2002-'03	7.69	11.43	17.75	19.25	43.32	59.4

Source: 1) Computed from Table 3.14.

2) Jeromi, P.D., *Bank Credit In Kerala: An Analysis Of Trends And Issues*, Mumbai:RBI, November 2003, p.1778.

From Table 3.16 it is clear that credit per office and deposit per office of Kerala are low when compared with the figures of India. It is so only because of the presence of an excellent network of branches.

Credit Deposit Ratio is the ratio between credit advanced and deposit accepted presented in percentage. It is one of the important indices of the banks performance in resource mobilisation and purveying of credit. It may be noted that advances made includes agricultural advance and industrial advance. In the case of Kerala, as major portion of agricultural loans are given by co-operative banks, commercial banks are able to concentrate on mid loans. Hence C-D Ratio is a good indicator for judging the flow of credit to industry in Kerala.

Diagram 3.1

Credit Deposit Ratio of Banks in Kerala and in India

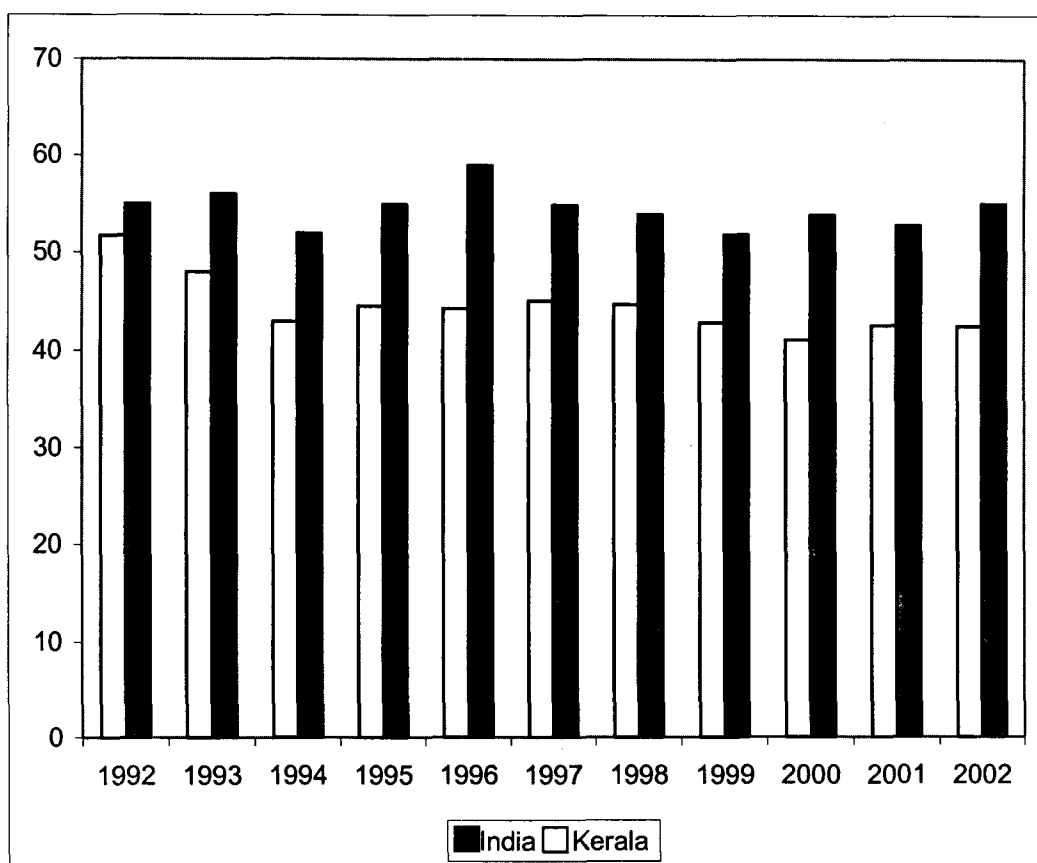


Table 3.14 and Diagram 3.1 show the C-D Ratio over the years. The C-D Ratio of commercial banks in Kerala 1992 was 51.73, it declined to 41.28 percent in March 2000 and moved up slightly to reach 42.77 percent in March 2001 and again declined to 42.71 percent. This is very low when compared with the national average C-D Ratio of 55.2 percent in 2002. Kerala C-D Ratio virtually paled before the C-D Ratio in Maharashtra (95 percent), Tamil Nadu (75.8 percent), Andhra Pradesh (62.4 percent) and Karnataka (59.5 percent)⁹.

The prevalence of low C-D Ratio has come to the realisation of several states which in turn have sought for an increase in credit deployment. The emergence of low C-D Ratio has been a result of the anomalous nature of regional development which encouraged investment and credit flows to specific regions only mainly due to geographical and resource factors. This however can be attributed to the adequate infrastructural support existing in those states. In recent years individual states have been demanding a greater share of bank credit and investment in order to uplift the respective state economies. This demand is not backed by requisite infrastructural support. On the contrary, the various bottlenecks present dissuade investments. Hence the bankers and investors were either hesitant or unable in deploying funds. Consequently, the low credit and investment absorption capacities of the concerned State deterred credit and investment flows.

In the context of the generally declining C-D Ratio in several states and in Kerala, in particular since 1991-92, the then Governor of Reserve Bank of India agreed to set up a Working Group to examine the reasons for the prevalence of low C-D Ratio in the State and to suggest the measures to improve the same. A Task Force was constituted under the chairmanship of Dara D. Avari with the main

objective of arresting the declining C.D Ratio and reverses its trend in order that the C-D Ratio increases to 55 percent by the end of 1998-99 and 60 percent by the end 2000-01¹⁰. The Avari committee estimated the deposits by the end of March 1999 to be Rs. 33.894 crores. In order to achieve a C-D Ratio of 55 percent the credit worked out was Rs. 18642 crores at the end of 1998-99. To achieve a C-D Ratio of 60 percent at the end of 2000-01 deposit was worked out to 48291.6 crores and credit worked out was Rs. 28975 crores. But the commercial banks of Kerala had achieved only 73 percent of estimated credit and 93 percent of estimated deposits resulting in a C-D Ratio of only 43.06 percent which is only 78 percent of estimated 55 percent.

Again when 2000-01 figures are analysed it can be seen that the banks of Kerala have achieved 66 percent of estimated credit and 93 percent of estimated deposits, thus resulting in a C-D Ratio of 42.77 in 2001 which is only 71 percent of the anticipated figure.

The C-D Ratio in Kerala had always been above 60 percent level till as late as 1990-1991 when it marginally dropped to 59 percent. Afterwards it never came above 60 percent. C-D Ratio is influenced by the quantum of credit and deposits.

The advances of Kerala banks grew annually at a rate ranging between 8 percent and 22 percent for a 14-year period from 1989-1990 to 2002-2003 (Table 3.17). The average for the period is found to be 14 percent. The half-yearly growth of advances ending on September 30th 2003 is found to be only 5.7 percent which is below the average for the period. The conclusion that can be drawn for the above is that the growth in advance is not satisfactory.

Table 3.17

C-D Ratio of Kerala with and without NRE Deposits

(In Rs Crores)

Year	Deposits			Advances	C-D Ratio	
	NRE	Domestic	Total		With NRE	Without NRE
1984-'85	844(24)	2635	3479	2181	62.69	82.77
1989-'90	2012(30)	4608	6620	4118	62.20	89.37
1990-'91	2304(29)	5554	7858	4638	59.00	83.51
1991-'92	3039(31)	6632	9671	5003	51.73	75.44
1992-'93	4499(37)	7613	12112	5818	48.03	76.42
1993-'94	6015(40)	8926	14941	6442	43.00	72.17
1994-'95	6886(39)	10572	17458	7797	44.66	73.75
1995-'96	8103(40)	12068	20171	8961	44.42	74.25
1996-'97	10178(43)	13176	23354	10565	45.24	80.18
1997-'98	12735(46)	14817	27552	12364	44.88	83.44
1998-'99	13329(42)	18203	31532	13577	43.06	74.58
1999-'00	18724(49)	19895	38619	15941	41.28	80.13
2000-'01	21431(48)	23419	44850	19180	42.77	81.90
2001-'02	24534(48)	27122	51656	22062	42.71	81.34
2002-'03	28696(48)	30703	59399	27007	45.47	87.96
Sept. 2003	28998(47)	32121	61119	28535	46.69	88.83

Source: 1) Avari, Dara D., Report of the Committee on Credit Deposit Ratio in Kerala Bangalore: Canara Bank, 1994, p.33.

2) Government of Kerala, State Planning Board, Economic Review, 2002, p.363.

3) Susmitha,N.,“Nikshepa Valarcha Thazhot: Banking Meghalayil Aasanka”, Mathrubhumi, Dhanakaryam Supplement, January 12, 2004.

Note: Figures in parentheses show the percentage of NRE deposits in total deposits.

Table 3.18
Growth in Deposits, Advances and C-D Ratio

Year	Growth in Percentage					
	NRE Deposits	Domestic Deposits	Total Deposits	Advances	C-D Ratio with NRE	C-D Ratio without NRE
1990-'91	14.5	20.5	18.7	12.6	-5.1	-6.6
1991-'92	31.9	19.4	23.1	7.9	-12.3	-9.7
1992-'93	48.0	14.8	25.2	16.3	-7.2	1.3
1993-'94	33.7	17.2	23.4	10.7	-10.5	-5.5
1994-'95	14.5	18.4	16.9	21.0	3.9	2.2
1995-'96	17.7	14.2	15.5	14.9	-0.5	0.7
1996-'97	25.6	9.2	15.8	17.9	1.8	8.0
1997-'98	25.1	12.5	18.0	17.0	-0.8	4.1
1998-'99	4.7	22.9	14.4	9.8	-4.1	-10.6
1999-'00	40.5	9.3	22.5	17.4	-4.1	7.4
2000-'01	14.5	17.7	16.1	20.3	3.6	2.2
2001-'02	14.5	15.8	15.2	15.0	-0.1	-0.7
2002-'03	17.0	13.2	15.0	22.4	6.5	8.1
Sept.2003	1.1	4.6	2.9	5.7	2.7	1.0

Source: Computed from Table 3.17

One noticeable feature of deposits in Kerala had been the contribution of NRE deposits to the total deposits. While the NRE deposits grew at a speed ranging between 15-48percent (except in 1998-1999 at 4.7 percent), the domestic deposits grew slower ranging between 9-22 percent. The average growth of NRE deposits and domestic deposits for the period is found to be 21.6 percent and 14.7 percent. The half-yearly growth of the above two deposits for the period ending 30th September 2003 is very low, i.e., 1.1 percent and 4.6 percent (Table 3.18). This is due to the reduction in the interest rates offered by the banks. This heavy decline in the growth of deposits especially NRE deposits can create severe problems in the working of commercial banks.

When C-D Ratio (With NRE deposits) is analysed it can be seen that it is decreasing up to 1999-2000 and afterwards it is increasing. This is because the annual growth of credit after 1999-2000 is higher than the annual growth of total deposits.

When C-D Ratio (Without NRE deposits) is considered, it is always higher; above 80 percent after 1996 (except 1998-99) NRE deposits form nearly 50 percent of the total deposits. In order to achieve a higher C-D Ratio it is not wise to advise banks not to accept NRE deposits because banks are in need of deposits. Banks should find out new avenues to lend more money to different sectors of the economy. Banks should re-orient the methods and practices, thinking and attitude and will have to be more outgoing in search of new clients for marketing their additional NRE deposits in hand.

The latest data available pertaining to September 2003 reveal that C-D Ratio in the state increased by 2.7 percent over six months, which indicates a pick-up in credit disbursement following revival in the State economy.

Scheduled commercial banks invest the deposits accepted in advances and also in securities. The Investment Deposit Ratio (I-D Ratio) is the ratio between the investment and deposit accepted represented in percentage. The Credit +Investment – Deposit Ratio (C+I-D Ratio) is the ratio between the total of investment and credit to the deposit accepted presented in percentage.

The C-D Ratio, I-D Ratio and C+I-D Ratio of all States and Union Territories (UT) for March 1992 and March 2002 are given in Table 3.19.

Table 3.19
State/Union Territory wise C-D, I-D and C+I-D Ratios

State/ Union Territory	3/1992			3/2002		
	C-D	I-D	C+I-D	C-D	I-D	C+I-D
Manipur	72.60	59.88	132.48	27.3	32.5	59.8
Tamil Nadu	99.79	13.00	112.79	88.5	6.6	95.1
Orissa	72.21	38.63	110.84	51.4	23.7	75.1
Andhra Pradesh	80.68	7.21	97.28	67.7	12.0	79.7
Karnataka	78.39	12.35	90.72	68.9	6.8	75.7
Madhya Pradesh	63.72	21.72	85.44	50.3	14.0	64.3
Rajasthan	55.63	25.12	80.75	55.4	18.9	74.3
Assam	49.12	29.44	78.56	70.3	17.6	87.9
Nagaland	39.18	39.03	78.21	18.1	35.2	53.3
Tripura	56.39	21.15	77.54	21.6	12.1	33.7
Delhi	73.10	0.85	73.95	59.1	0.1	59.2
Haryana	56.54	14.51	71.05	55.0	8.1	63.1
Maharashtra	62.41	5.47	67.88	77.5	3.0	80.5
Kerala	51.86	13.92	65.78	43.7	8.0	51.7
Gujarat	53.55	12.16	65.71	54.7	6.8	61.5
Chandigarh	65.11	0.07	65.18	102.3	0	102.3
Bihar	39.52	25.10	64.62	21.9	17.0	38.9
West. Bengal	52.74	10.16	62.90	49.2	8.0	57.2
Uttar Pradesh	44.62	16.77	61.39	34.3	11.8	46.1
Jammu & Kashmir	42.96	17.15	60.11	40.9	9.2	50.1
Himachal Pradesh	33.33	15.48	48.79	32.5	12.9	45.4
Punjab	42.20	6.52	48.72	43.9	5.3	49.2
Meghalaya	20.17	28.10	48.27	24.3	16.3	40.0
Pondicherry	47.77	0.06	47.83	39.2	0	39.2
Dadra Nagar Haveli	46.05	-	46.05	189.0	0	189.0
Sikkim	27.18	15.27	43.05	22.5	13.9	36.4
Goa	30.87	1.69	32.58	28.2	3.9	32.1
Andaman & Nicobar	32.40	-	32.40	57.2	0	57.2
Mizoram	21.68	-	21.68	36.2	22.2	58.4
Arunachal Pradesh	14.40	16.60	21.61	27.4	6.9	34.3
Daman & Diu	19.64	-	19.64	79.4	0	79.4
Lakshadweep	12.76	-	12.76	9.6	0	9.6
All India	61.01	11.77	72.78	58.4	7.2	65.6

Source: 1. Avari, Dara, D. *Report of the Committee on Credit Deposit Ratio in Kerala*, Bangalore: Canara Bank, 1994, p.29-30.

2. RBI, *Trend and Progress of Banking In India 2002-03*, November 2003.

It is astonishing to see that the number of states having a C-D Ratio higher than 70 percent for both the years is six. Even when the All-India C-D Ratio decreased over the years there are eleven States/U.T having an increase. Another important fact is that during 2001-2002 there are two states with a C-D Ratio higher than 100 percent. Table 3.19 reveals the fact that the All-India I-D Ratio is only 7.2 percent. Many of the States/U.T with low C-D Ratio had high I-D Ratio. The highest I-D Ratio was shown by Nagaland (35.2) which had a low C-D Ratio of 18.1 percent. While two States/U.T showed cent percent C-D Ratio, six other States/U.T showed a zero I-D Ratio.

When C+I-D Ratio is analysed, in general it had decreased which is evident from the All-India Ratio. While, eleven States/U.T had achieved more than the All-India Ratio of 72.78 percent in 1992 only 9 have come above the All-India Ratio of 65.6 percent in 2002.

With regard to Kerala, all the above-cited ratios have declined during the period of 10 years (C-D Ratio from 51.86 percent to 43.7 percent, I-D Ratio 13.92 percent to 8 percent and C+I-D Ratio from 65.78 percent to 51.7 percent). The C+I-D Ratio of Kerala is lower than the All-India average for both the periods. Again, if the position of the other states of southern region is considered Kerala is far behind Tamil Nadu (95.1 percent), Karnataka (75.7) percent and Andhra Pradesh (79.7 percent). The decrease in the I-D Ratio reveals the fact that the bank investment has not compensated for the lower level of advances in the State.

The growth of the economy depends to a great extent on the level of deployment of bank credit. The level of advances as a percentage of NSDP can provide an

indication about the extent of credit support provided for the growth of the economy. It ranged between 25-40 percent during the period 1985-2002 and the average proportion was 32.2 percent in Kerala while it was 26 percent at the All-India level. During 1985-90 this proportion was 37.7 percent which came down to 27.9 percent during 1996-2002 when it was rising at the All-India level (25.2 percent to 27.6 percent) In 2002 this proportion for Kerala is 31.7 percent.

The proportion of bank credit to state income in the neighbouring states like Tamil Nadu and Karnataka was higher than that of Kerala. During 1997 to 2000, the average proportion in Tamil Nadu was 40.8 percent and 32.9 percent in the case of Karnataka as against 27 percent in Kerala.¹¹

The Avari Committee had brought out many constraints in different sectors of the economy which were in the way of the commercial banks in lending money. Some of them are existing still in the industrial sector. They are listed below.

1. The State had been developing the service sectors at the cost of the commodity sectors.
2. Credit absorption capacity of the industrial sector in Kerala is low.
3. Infrastructure is poor.
4. There is delay in sanctioning of loans.
5. The exposure of branch personnel to industrial financing is poor.
6. Bank loan application forms are complex.

7. Often the Branch Managers do not have sufficient delegation of powers and potential loanees have to chase the papers all the way-up and in some cases, across state boarders to the head office of the banks concerned.
8. Time taken to sanction loans is too long.
9. Banks do not finance for acquisition of land in Kerala adequately, despite the realisation that land in Kerala is costlier than land elsewhere.
10. The role of banks in providing for building of industrial infrastructure is negligible.

The flow of bank money to the industrial sector is clear from Table 3.20.

Table 3.20

Flow of Bank Money to Industries in Kerala

Year	Number of Credit Accounts	Number of Industrial Credit Accounts	% to Total	Bank Credit (Amount in Rs. Crores)	Bank Credit to Industry (Amount in Rs. Crores)	% to Total
1992	3851461	210198	5.46	5013.28	1739.57	34.69
1993	3690721	216330	5.86	5691.2	1906.7	33.50
1994	3767117	219528	5.83	6525.3	2135.9	32.73
1995	3525389	208027	5.90	7797.7	2432.6	31.20
1996	3362003	187860	5.59	8988.6	2787.9	31.02
1997	3536545	201219	5.69	10586.5	3082.5	29.12
1998	3638766	191817	5.27	12361.9	3423.2	27.69
1999	3457915	223241	6.46	13850.2	3870.2	27.94
2000	3548669	300040	8.46	16281.5	4446.1	27.31
2001	3700791	270503	7.31	18697.1	4709.2	25.19

Source: CMIE, *Money and Banking*, Mumbai, Various years.

When the industrial credit is analysed it can be seen that the proportion of the number of industrial accounts to total number of accounts varied between 5-8 percent while the proportion of bank credit to industry to total bank credit varied between 25 percent and 35 percent. It indicated indirectly the practice of banks in granting loans of huge amount, thus avoiding small industrialists. It is distressing to see that the proportion of industrial credit is decreasing year after year. Industrial credit provided by banks has come down from 34.69 percent in 1992 to 25.19 percent of the total bank credit in 2000-2001.

Banks can play a more significant role in the economic development of the State if they are willing to adopt innovative methods and schemes to finance ventures requiring small investments and for building up infrastructure in the State. The climate for investment had improved in Kerala in the recent times. But the banking practices continue to be on traditional terms, called lazy banking.

Kerala Financial Corporation (KFC)

The State Financial Corporations (SFCs) operating as development banks are State level financial institutions playing a crucial role in the development of small and medium enterprises in the State in tandem with the national priorities. There are 18 SFCs in the country including KFC. The SFCs provide financial assistance by way of term loans, direct supervision to equity/debentures, guarantees, discounting bills of exchange and seed/special capital. The SFCs operate a number of schemes of refinance and equity type assistance on behalf of IDBI/SIDBI in addition to special schemes for artisans and special target group such as Scheduled Caste/Scheduled Tribes, women, ex-service men and physically handicapped. The SFCs continue to be

in a bad shape with only 3 out of 18 being able to meet the 9 percent stipulated Capital Adequacy Ratio (CAR). These three states are Delhi, Haryana and Kerala.

The position of KFC among the 18 SFCs, will be clear from Table 3.21.

Table 3.21

Sanction & Disbursements by State Financial Corporations

SL. No.	State	Sanctions Upto March 2001 (In Rupees Million)	% to Total	Disbursements Up to March 2001 (In Rupees Million)	% to Total	Disbursements as percentage of Sanction
1	Andhra Pradesh	29289	8.16	24405	8.33	83.32
2	Assam	1168	0.33	1108	0.38	94.86
3	Bihar	7842	2.18	4234	1.45	53.99
4	Delhi	8324	2.32	4131	1.41	49.62
5	Gujarat	43697	12.18	32667	11.16	74.76
6	Haryana	16525	4.60	13805	4.71	83.54
7	Himachal Pradesh	2122	0.59	1970	0.67	92.83
8	Jammu & Kashmir	3717	1.04	3298	1.13	88.73
9	Karnataka	54958	15.31	49937	17.05	90.86
10	Kerala (7th)	21169	5.90	16932	5.78	79.99
11	Madhya Pradesh	10276	2.86	9226	3.15	89.78
12	Maharashtra	36638	10.21	26996	9.22	73.68
13	Orissa	13192	3.68	11683	3.99	88.56
14	Punjab	10373	2.89	9807	3.35	94.54
15	Rajasthan	18989	5.29	17637	6.02	92.88
16	Tamil Nadu	42023	11.71	28867	9.86	68.69
17	Uttar Pradesh	29180	8.13	28463	9.72	97.54
18	West Bengal	9406	2.62	7683	2.62	81.68
	Total	358888	100.00	292849	100.00	-

Source: Government of Kerala, State Planning Board, *Economic Review*, 2000, p.174.

From Table 3.21 it can be seen that Kerala ranks 7th when loan sanctions up to March 2001 is considered. Its sanctions amount to 5.90 percent of the

total sanctions made by all SFCs together. Similarly out of the total disbursements made by the SFCs, KFC's portion amounts to 5.78 percent. It is 79.99 percent of its sanctioned loans.

Kerala Financial Corporation born in 1953 has successfully crossed five decades of dedicated service in the economic development of the Kerala State. During the last five decades, KFC had been instrumental in promoting industrialisation in the state by providing financial assistance to the small scale and medium scale industrial units and service sector projects. It has played a key role in supporting first time entrepreneurs, promoting green field projects and employment generation. KFC has financed nearly Rs 2,500 crores to more than 40,000 ventures across the state. In line with the liberalisation of the economy, KFC is moving ahead with a series of activities and diversification plans, rightly positioning the organisation among the targeted audience. The experience and expertise gathered during the past helped the Corporation to diversify its activities by devising innovative, tailor-made schemes to adapt to the changing trends and requirements. KFC has enlarged its scope of operation by entering into other segments viz. health care sector, hospitality sector etc. KFC has grown as the single largest agency in Kerala in financing Tourist Hotels and Resorts.

KFC has its headquarters at Thiruvananthapuram and Branch Offices in all the district headquarters of Kerala. It has on its roll 378 employees. It was ranked under category II by SIDBI based on performance during 2001-02 and criteria as recommended by Nimbalkar Committee and this categorization was valid for 2002-03. KFC is held in high status by various national institutions

Table 3.22
Highlights of Performance of KFC

(in Rs. Lakhs)

Particulars	Years											
	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03
Application Received	9104.00	11044.00	10528.00	13460	28805	24867	32065	27369	20150	37401	22766	20865
Application Sanctioned	7235.00	9311.00	8410.00	11435	23729	21550	26035	20969	17612	29246	16382	15573
Amount Disbursed	6058.00	6510.00	6842.00	7538	13975	18861	19944	19129	14971	22689	17594	11231
Recovery Amount	5502.00	7433.00	8362.00	9704	14094	15735	16556	20329	23025	23069	23709	25285
Profit/Loss before depreciation and provisions	97.94	389.58	265.84	886	2763	2063	1937	2154	1681	2389	1260	1179
Net Profit	89.94	141.14	141.56	188	979	1453	1148	1148	(-)1068	(-)2438	(-)2883	(-)637

Source: KFC, Thiruvananthapuram.

(viz. RBI, IDBI) and in Central Ministry of Industries and Finance because of its good track record and highest credibility.

In order to establish better understanding and relationship with the clients, the Corporation's focus is on customer care and support. In each Branch Office a separate Customer Relations Cell is working to provide necessary guidance to clients. It aims at enhanced customer satisfaction through Professional Management, Team Work and Continuous Improvement. KFC is an ISO 9000 certified organisation and the ongoing ISO revision process to ISO 9001-2000 series is a testimonial to the organisations commitment to improved customer satisfaction.

KFC is one of the few 'A' rated SFCs in India. The structural changes and the financial sector reforms in the economy have put most of the SFCs in India in bad shape. In spite of these adversities, KFC has recorded a consistently good performance.

From Table 3.22 it is found that KFC has sanctioned nearly 80 percent of the amount applied on an average and disbursed on average 79.77 percent of the amount sanctioned.

As per the guidelines of RBI on asset classification and provisioning norms, KFC has classified its assets and provided the required amount as provision for various categories of Non-Performing Assets (NPA). Table 3.23 makes it clear.

Table 3.23

Quality of Assets and Provision of KFC

(Rs. In Lakhs)

Year	Category of Assets					% of NPA to Loans
	Standard	Sub-standard	Doubtful I	Doubtful II	Total	
1998-99	55937	18733	-	5777	80447	30.46
Amount outstanding						
Provision	Nil	1873	-	1721	3594	
1999-00	42359	22312	-	8333	73004	41.98
Amount outstanding						
Provision	106	2231	-	2448	4785	
2000-01	45096	20358	13671	5417	84542	46.66
Amount outstanding						
Provision	113	2036	3418	2708	8275	
2001-02	37895	26916	16567	7786	89164	57.50
Amount outstanding						
Provision	95	2691	4142	3893	10821	
2002-03	29830	26919	19031	7945	83725	64.37
Amount outstanding						
Provision	75	2692	4757	3972	11496	

Source: KFC, Thiruvananthapuram.

Assets comprise Standard assets, Sub standard assets, Doubtful category I and Doubtful category II. Non Performing Assets is the total of Substandard, Doubtful category I and Doubtful category II assets. The percentage of NPA, to total advances has increased from 30.46 in 1998-99 to 64.37 in 2002-03 despite undertaking vigorous collection drive. This is a matter of serious concern. The Corporation has taken necessary action to address this critical issue by introducing new guidelines for One Time Settlement. When NPA increases KFC has to set apart a huge amount as provision from its profit. As per accounts the Corporation is making a net loss. It is only because of the heavy provision to be made for the doubtful debts as per RBI norms. It is heartening to note that it has reduced much of its loss in 2002-03 and hope that it will make a net profit in the coming year.

Kerala State Industries Development Corporation Limited (KSIDC)

KSIDC was set up on 21st July 1961, as a public limited company, wholly owned by the Government of Kerala. The main objectives of the Corporation are promotion and development of medium and large scale industries, extension of assistance to entrepreneurs for identification of investment opportunities and selection of projects for implementation in the joint sector. It implements various policies and programmes of the government. It advises and assists the government in taking concrete steps to promote the industrialisation of the State. Till now KSIDC has promoted 468 units with a total investment of Rs 4540 crores and has created employment for over 70800 people.

KSIDC has its head office located at Thiruvananthapuram and a branch at Kochi. Altogether there are hundred employees working at present in KSIDC. IDBI

has allowed KSIDC to do business under category 'A' for the Financial Year 2000-01 and 2001-02. The products and services of KSIDC are identification of viable projects, escorting entrepreneurs at all levels of project implementation, term loan financing, equity participation, organising business delegations to foreign countries to attract investments, managing of industrial parks, marketing Kerala as an investment destination, feasibility study and conducting exhibitions and seminars in order to create investor awareness about the State. Breathing life into business concepts and helping the investors through the steps of planning, infrastructure and financial tie-ups, commissioning and beyond, KSIDC is truly the investor's friend, philosopher and guide.

The working of KSIDC will be clearer through Table 3.24.

Table 3.24

Highlights of Performance of KSIDC

(in Rs. Lakhs)

Year	Loan Sanctioned	Loan Disbursed	% of Disbursement to Sanction	Net Profit	% of Growth in Net Profit
1991-92	4421.97	2404.78	54	49.40	-
1992-93	5497.10	2723.65	50	122.36	148
1993-94	4873.39	2984.55	61	211.07	172
1994-95	4441.00	3261.20	73	1162.86	450
1995-96	7772.20	4243.00	55	631.26	(-)45
1996-97	8201.66	6094.22	74	942.84	49
1997-98	5612.43	4098.37	73	584.22	(-)38
1999-00	11180.55	6555.34	59	452.48	(-)23
2000-01	11529.80	7817.80	68	566.33	25
2001-02	7699.94	5070.13	66	541.73	(-)4
2002-03	6948.06	4532.35	65	755.82	40

Source: KSIDC, Thiruvananthapuram.

KSIDC disburses on an average 63 percent of the gross sanctioned loans. The percentage of growth in the net profit of KSIDC seems to be varying from year to year. It is because the business is not uniform all the years. It is varying in a different rate.

KSIDC has classified its assets according to the RBI norms. Accordingly it can be seen that NPA of KSIDC is increasing at a higher rate. (Table 3.25) From 37 percent in 1995-96 it has reached 66 percent in 2002-03 i.e. by 8 years which is disheartening. KSIDC has undertaken vigorous steps to reduce NPA.

Table 3.25

Quality of Assets and Provision of KSIDC

(In Rs Crores)

Year	Assets						
	Standard	Sub Standard	Doubtful	Loss	Total	% of NPA to Total	Provision
1995-96	89.63	11.36	32.03	8.57	141.59	37	13.86
1996-97	104.65	30.11	32.61	12.27	179.64	42	19.52
1997-98	99.27	36.25	37.06	9.27	181.85	45	26.43
1998-99	79.88	40.75	50.20	20.42	191.25	58	40.56
1999-00	114.60	42.25	62.27	19.13	238.25	52	49.07
2000-01	101.79	57.27	74.61	20.72	254.39	60	61.9
2001-02	100.58	43.01	93.40	22.60	259.59	61	69.2
2002-03	85.00	28.00	113.00	20.00	246.00	66	N/A

Source: KSIDC, Thiruvananthapuram.

In its role of marketing Kerala as an investment destination KSIDC was able to take the lead in conducting the Global Investor Meet (GIM). GIM brings investments to the State Government's strategy of proactively identifying investment opportunities and placing them before the investor community has paid off very well. Investor interest has been received for a number of projects, Memorandum of Understanding (MoU) signed with many and also many investment announcements have been made. The GIM has been instrumental in attracting investments to the tune of Rs 26,000 crores. MoUs have been entered into for 96 projects totalling Rs 11159.45 crores. Additionally major investment decisions to the tune of Rs 10,000crores have been announced by major public sector enterprises and private sector groups. From the role of industry developer KSIDC has evolved in the new decade into the nodal agency for investment promotion in Kerala.

Conclusion

Despite the financial and promotional support from commercial banks, KFC and KSIDC, it remains a sad state of affairs that Kerala remains an industrially backward state in India. It is against this background that an attempt is made to find out the views of entrepreneurs in making use of the financial and other support from these institutions. The views obtained from the entrepreneurs who have received support from these institutions are analysed and reported in the next three chapters.

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ROLE OF FINANCIAL INSTITUTIONS IN THE INDUSTRIALISATION OF KERALA

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By

JANCY DAVY

Under the supervision of

PROF. (DR.) K. C. VIJAYAKUMAR

Department of Commerce and Management Studies

UNIVERSITY OF CALICUT

P. O. CALICUT UNIVERSITY

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CHAPTER IV

ROLE OF FINANCIAL INSTITUTIONS

Introduction

Through the analysis of industrial finance it was found that three major institutions provide bulk of the funds for industries in Kerala. They are Kerala Financial Corporation (KFC), Kerala State Industrial Development Corporation Ltd. (KSIDC) and the commercial banks of Kerala. These institutions are engaged in financial, promotional and developmental activities. While KFC assists small and medium scale industrial units, KSIDC helps large and medium scale units and commercial banks assist both small scale and large and medium industries. Because of the special area allotted to each institution, not much overlapping of activities is found. In this chapter an attempt is made to analyse how these institutions have been performing their role effectively to the satisfaction of the industrial units in the State. In order to ascertain the effectiveness of these institutions in performing their roles, the data collected from the assisted units are analysed and interpreted.

As explained in the methodology, the sample comprises 32 units assisted by KFC, 32 units assisted by commercial banks and 12 units assisted by KSIDC. The sample has been drawn in such a way so as to ensure equal representation to the districts of Idukki (representing category A), Alappuzha (representing category B), Thrissur (representing category C) and Ernakulam

(representing non-backward). As KSIDC finances large and medium scale units they are only 16 for all these four districts together, which availed themselves of the assistance during the period under study. Out of these units, all units from Idukki, Alappuzha and Thrissur and 7 units from Ernakulam were selected.

Table 4.1 reveals the details about the samples

Table 4.1
Details About Samples

Districts	KFC aidedNo.	KSIDC aidedNo.	Commercial bank aided No.	Total
Idukki	8	1	8	17
Alappuzha	8	1	8	17
Thrissur	8	3	8	19
Ernakulam	8	7	8	23
Total	32	12	32	76

Source: Survey Data.

The whole data were analysed district-wise and institution-wise. The questionnaire was divided into 3 sections, the first section dealing with unit profile, the second section dealing with loans which was again divided into term loan, working capital loan and general aspects and the last section requesting suggestions/comments. In this chapter analysis is made of the data given in the first and second sections.

Type of Organisation

All the three financial institutions assist the industrial units irrespective of the type of organisation. The industrial units can be formed as sole

proprietorship, partnership, private company, public company or co-operative society. The suitability of a particular form of organisation may depend on several factors such as nature of business, financial requirements, secrecy required etc.

Table 4.2 reveals the details of type of organisation institution-wise. Out of the 76 sample units, there are 45 percentage as proprietary concerns, 20 percentage firms, 16 percentage private companies, 18 percentage public companies and one percentage co-operative society.

Table 4.2

Distribution of Sample Units by Type of Organisation (Institution-wise)

Type of Organisation	Institutions						Total	
	KFC aided No.	%	KSIDC aided No.	%	Banks aided No.	%	No.	%
Sole proprietorship	20	59	-	-	14	41	34	100
%to Total	62	-	-	-	44	-	45	-
Partnership	6	40	1	7	8	53	15	100
%to Total	19	-	8	-	25	-	20	-
Private company	5	42	3	25	4	33	12	100
%to Total	16	-	25	-	13	-	16	-
Public company	1	7	8	57	5	36	14	100
%to Total	3	-	67	-	15	-	18	-
Co-operative society	-	-	-	-	1	100	1	100
%to Total	-	-	-	-	3	-	1	-
Total	32	-	12	-	32	-	76	100
% to Total	100	-	100	-	100	-	100	-

Source: Survey Data.

Out of the 34 proprietary concerns financed 59 percent are financed by KFC and 41 percent by commercial banks. KSIDC did not finance any sole proprietary organisation. It is because of the fact that KSIDC is authorised to finance only large and medium scale industries and sole proprietors are reluctant to start large scale industries due to the lack of heavy capital and fear of risk. The same situation is seen in the case of partnership organisation too. Out of the 15 firms assisted, while KFC financed 40 percent of the units, banks financed 53 percent units and KSIDC only 7 percent. When the company organizations (private & public) are analysed, out of 26 units, 23 percent are financed by KFC, 42 percentage by KSIDC and 35 percent by commercial banks. This again reveals the nature of loanees who should be financed by each institution. Out of the 76 units surveyed, only one was a co-operative society, which was financed by a commercial bank.

Table 4.3

Distribution of Sample Units by Type of Organisation (District-wise)

Type of Organisation	Districts								Total	
	Idukki		Alappuzha		Thrissur		Ernakulam		No.	%
	No.	%	No.	%	No.	%	No.	%		
Sole Proprietorship	11	64	9	52	6	31	8	35	34	45
Partnership	4	24	4	24	2	11	6	26	16	21
Private Company	1	6	2	12	4	21	5	22	12	16
Public Company	1	6	1	6	7	37	4	17	13	17
Co-operative Society	-	-	1	6	-	-	-	-	1	1
Total	1	100	17	100	19	100	23	100	76	100

Source: Survey Data.

Out of the 17 units selected from Idukki district, 64 percent were proprietary concerns, 24 percent were firms and 12 percent were companies. Out of the 17 units representing Alappuzha, 52 percent were sole proprietors 24 percent were firms, 12 percent were companies and 6 percent were co-operative society. Among the districts only Alappuzha had a co-operative society as a representative. While Thrissur district represented with 31 percent sole proprietors, 11 percent firms and 58 percent companies Ernakulam had in its list 35 percent sole proprietors, 26 percent firms and 39 percent companies.

Type of Origin

An industrial unit can be started either by acquiring an existing unit or by setting up a new independent unit. Enterprising, energetic and resourceful individuals prefer to promote new units. Others shy away from such proposition because of time, effort, patience and risk involved in it. Data pertaining to the mode of starting the sample units are given in Table 4.4.

Table 4.4

Distribution of Sample Units by Type of Origin (Institution –wise)

Type of origin	Institutions						Total	
	KFC aided No.	%	KSIDC aided No.	%	Bank aided No.	%	No.	%
New	29	90	12	100	30	94	71	93
Acquired	3	10	-	-	2	6	5	7
Total	32	100	12	100	32	100	76	100

Source: Survey Data

A look at the Table reveals the fact that out of 76 samples, 93 percent are new and only 7 percent are acquired. Out of the KFC aided units, 90 percent are new and 10 percent are old units acquired by the present owners. KSIDC financed 12 units and all are new. Out of the bank aided 32 units 94 percent are new. It may be concluded that KFC and banks are ready to finance new as well as acquired units.

Table 4.5

Distribution of Sample Units by Type of Origin(District-wise)

Type of Origin	Districts									
	Idukki		Alappuzha		Thrissur		Ernakulam		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%
New	16	94	16	94	17	89	22	96	71	93
Acquired	1	6	1	6	2	11	1	4	5	7
Total	17	100	17	100	19	100	23	100	76	100

Source: Survey Data

District-wise analysis by type of origin shows that Idukki and Alappuzha have 94 percent of new units out of 17 samples, Thrissur has 89percent new out of 19 units and Ernakulam has 96percent new ones on the list of 23.

Nature of Industry

The industry-wise classification of the sample units are exhibited in Table 4.6 and Table 4.7. The units have been broadly divided into six

categories as shown in the tables, on the basis of the type of product they manufacture.

Table 4.6

Distribution of Sample Units by Nature of Industry (Institution-wise)

Nature of Industry	Institutions						Total	
	KFC aided No.	%	KSIDC aided No.	%	Bank aided No.	%	No.	%
Food Product	5	16	4	34	4	13	13	17
Hosiery Garment	3	9	-	-	3	9	6	8
Rubber & Plastic	5	16	1	8	10	31	16	21
General Engineering	4	12	1	8	6	19	11	14
Electronic & Electrical	1	3	3	25	1	3	5	7
Others	14	44	3	25	8	25	25	33
Total	32	100	12	100	32	100	76	100

Source: Survey Data

Of the KFC aided 32 units, 16 percent deal with food products, 9 percent with hosiery garments, 16 percent with rubber, 12 percent with general engineering 3 percent with electronic and electrical and others account for 44 percent units. While KSIDC financed 34 percent units manufacturing food products, 8 percent rubber and plastic products, 8 percent general engineering products, 25 percent electronic and electrical products and 25 percent others, banks financed 13 percent units manufacturing food

products, 9 percent hosiery garments 31 percent rubber and plastics, 19 percent general engineering, 3 percent electronic and electrical and 25 percent units manufacturing 'Other' products.

Table 4.7
Distribution of Sample Units by Nature of Industry (District-wise)

Nature of industry	Districts									
	Idukki		Alappuzha		Thrissur		Ernakulam		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%
Food Products	4	23	1	6	6	31	2	9	13	17
Hosiery Garments	2	12	-	-	4	21	-	-	6	8
Rubber & plastic	5	29	2	12	6	32	3	13	16	21
General Engineering	2	12	3	18	2	11	4	17	11	14
Electronic & Electrical	-	-	2	12	-	-	3	13	5	7
Others	4	24	9	52	1	5	11	48	25	33
Total	17	100	17	100	19	100	23	100	76	100

Source: Survey Data.

When the nature of industry is analysed district-wise, Idukki represents with 23 percent food products manufacturing units, 12 percent Hosiery, 29 percent rubber & plastic, 12 percent general engineering and others 24 percent Alappuzha has on its list 6 percent units representing food products, 12 percent rubber & plastic, 18 percent general engineering, 12 percent electronic and electrical and 52 percent others. When 31 percent units of food products, 21 percent of garments, 32 percent of rubber, 11 percent of general engineering and 5 percent of other goods are included on the list of Thrissur, Ernakulam has 9 percent representing food products, 13 percent

rubber, 17 percent general engineering, 13 percent electronic and electrical and 48 percent others.

Educational Background of the Entrepreneur

A person's view, approach and creativity will be improved by education. It helps in logical thinking and decision making. The level of education of the entrepreneurs is presented in Table 4.8.

Table 4.8

Distribution of Sample Units by Educational Background (Institution-wise)

Educational Background	Institutions						Total	
	KFC aided No.	%	KSIDC aided No.	%	Bank aided No.	%	No.	%
Non-technical								
Post-graduation	2	6	2	17	2	6	6	8
Graduation	6	19	4	33	8	25	18	24
Pre-degree	7	22	-	-	5	16	12	16
S.S.L.C	8	25	1	8	6	19	15	19
Technical								
Post-Graduation	1	3	3	25	1	3	5	6
Graduation	2	6	2	17	4	12	8	11
Diploma	3	10	-	-	6	19	9	12
Others	2	6	-	-	-	-	2	3
Both technical and non-technical	1	3	-	-	-	-	1	1
Total	32	100	12	100	32	100	76	100

Source: Survey Data.

Being small units aided by KFC, about 25 percent is qualified by SSLC only and another 22 percent by Pre-Degree in non-technical class. In the technical class, in units aided by KFC diploma holders play a more vital

role than others. But, on the contrary, major level of units financed by KSIDC is being run by qualified persons. We can conclude that the major chunk of industrial units is managed by educated entrepreneurs.

Table 4.9

Distribution of Sample units by Educational Background(District-wise)

Educational Background	Districts									
	Idukki		Alappuzha		Thrissur		Ernakulam		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%
Non-Technical	1	6	1	6	2	11	2	9	6	8
Post-Graduation										
Graduation	2	12	4	23	7	36	5	21	18	24
Pre-degree	7	41	3	18	1	5	3	13	14	18
S.S.L.C	6	35	4	23	3	16	4	17	17	22
Technical	-	-	-	-	1	5	3	13	4	5
Post-Graduation										
Graduation	-	-	2	12	3	16	2	9	7	10
Diploma	1	6	2	12	2	11	2	9	7	10
Others	-	-	-	-	-	-	2	9	2	2
Both Technical & Non-Technical	-	-	1	6	-	-	-	-	1	1
Total	17	100	17	100	19	100	23	100	76	100

Source: Survey Data.

From Table 4.9 it can be seen that technically qualified entrepreneurs are less in Idukki and Alappuzha districts, whereas Thrissur and Ernakulam dominate in this category. Out of the total units while non-technically educated persons constitute 72percent, technically educated persons mark 27 percent leaving only 1 percent for both technical and non-technical education. From these, we can infer that more entrepreneurs in the industrial sector come from the non-technically educated persons.

Training Received or Business Experience of Entrepreneurs

A unit's success depends upon the skill of the entrepreneur. An entrepreneur may possess all skills required for running an enterprise. If not, these can be developed through proper training or experience. Training programmes are arranged by many institutions to sharpen their skills and acquire new skills. Experience includes experience in running a business unit or experience as employee of a business unit. Data relating to training received or experience of entrepreneurs are showed in Table 4.10 and 4.11 respectively.

Table 4.10
Distribution of Sample Units by Training /Experience(Institution-wise)

Training/Experience	Institutions						Total	
	KFC aided No.	%	KSIDC aided No.	%	Bank aided No.	%	No.	%
Technical Training	13	41	3	25	11	34	27	36
Business Experience	15	47	8	67	16	50	39	51
Other Experience	4	12	1	8	5	16	10	13
Total	32	100	12	100	32	100	76	100

Source: Survey Data.

Out of the 76 units, 36% units have technically trained entrepreneurs, 51% is experienced in running business and 13% is experienced as employees of other concerns.

Table 4.11

Distribution of Sample Units by Training/Experience (District-wise)

Training/Experience	Districts									
	Idukki		Alappuzha		Thrissur		Ernakulam		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%
Technical Training	9	52	8	47	3	16	7	30	27	36
Business Experience	4	24	8	47	13	68	14	61	39	51
Other Experience	4	24	1	6	3	16	2	9	10	13
Total	17	100	17	100	19	100	23	100	76	100

Source: Survey Data.

Table 4.12 brings out the fact that out of 32 KFC aided units 41 percent are technically trained and 47 percent are well experienced in running a business and only 12 percent are experienced as employees. Out of KSIDC aided 12 units 25 percent have technically trained entrepreneurs, 67 percent have experienced businessmen as owners and only 8 percent has experience as employees. Bank aided units reveal the fact that 34 percent of the units are led by technically trained entrepreneurs, 50 percent are led by business experienced persons and 16 percent are experienced as employees. It can be

concluded that financial institutions prefer business experience more than technical training.

When the same data are analysed district-wise, while Idukki has 52 percent technically trained, 24 percent business experienced and 24 percent employee experienced entrepreneurs, Alappuzha has 47 percent technically trained, 47 percent business experienced and only 6 percent employee experienced entrepreneurs, Thrissur has less number of technically trained entrepreneurs (16 percent) but more of business experienced entrepreneurs (68 percent) when compared with other districts. Ernakulam too shows the same trend. More units in Ernakulam are run by business experienced persons, than technically trained people. Entrepreneurial talents are more seen in Ernakulam and Thrissur districts and it is true because these two districts represent industrially forward category.

Business Background of the Entrepreneur

Previous experience makes an entrepreneur to have an edge over the new entrepreneurs. A person can take decisions correctly and quickly and thus avoid failure. A person born in a business family or a person who has experience in business field will be thorough with all the tactics in business. Even if he is doing any other business which is not related to his previous business he would be familiar with the business tactics.

Table 4.12 and Table 4.13 throw light on this aspect.

Banks also welcome new entrepreneurs. Out of 32 units, 34 percent are run by new entrepreneurs.

Table 4.13

Distribution of Sample Units by Business Experience (District-wise)

Business Background	Districts									
	Idukki		Alappuzha		Thrissur		Ernakulam		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%
First time	9	52	8	47	3	16	7	30	27	36
Family Doing Same Business	3	18	4	24	9	47	9	39	25	33
Family Doing Other Business	1	6	4	23	4	21	5	22	14	18
Business Employee	4	23	1	6	3	6	2	9	10	14
Total	17	100	17	100	19	100	23	100	76	100

Source: Survey Data.

When district wise analysis is made, Idukki has 53 percent new entrepreneurs, 24 percent business experienced persons and 23 percent entrepreneurs who were employees in some other businesses. Out of the entrepreneurs of Alappuzha, 48 percent are experienced entrepreneurs of which 4 were doing the same type of business earlier. Ernakulam has 61 percent experienced entrepreneurs. However, as seen earlier Thrissur and Ernakulam districts welcome more experienced businessmen than first time entrepreneurs.

Motivation for Starting the Unit

Entrepreneurs are motivated by so many factors. The factors are broadly classified as (1) government incentive, (2) own initiative (3) warm circle encouragement (4) profit or income and (5) others.

Out of the 76 selected units about 36.69 percent are motivated primarily by the second motive, i.e., own initiative, secondarily by the fourth motive, profit or income to the extent of 35.98 percent, 13 percent by the third factor, viz., warm circle encouragement which means support given by friends and relatives, fourthly by government incentives to the extent of 11.2 percent and all other factors account for only 3.1 percent

The institution-wise and district-wise analysis are given in Table 4.14 and Table 4.15

Table 4.14
Distribution of Sample Units by Motivational Factors (Institution-wise)
(In Percentage)

Motivational factors	Institutions			
	KFC aided	KSIDC aided	Bank aided	Average
Government incentive	13.66	6.54	9.67	11.20
Own initiative	33.33	32.71	42.75	36.69
Warm circle encouragement	15.00	19.00	8.20	13.03
Profit or income	35.79	42.06	33.83	35.98
Others	2.19	-	5.58	3.10
Total	100	100	100	100

Source: Survey Data.

A perusal of Table 4.14 reveals that all the units, without any significance to the institution give their first and second preferences in favour of the individual determination and motives, viz., own initiative and profit. An entrepreneur guided by his personal motives will win surely. Among the 3 categories of units, KFC aided units recorded high preference for government incentive (13.66percent). This may be because KFC aids small and medium scale units. Among the 3 groups warm circle encouragement is given more priority by KSIDC aided units (19 percent).

Table 4.15

Distribution of Sample Units by Motivational Factors (District-wise)

(In Percentage)

Motivational Factors	Districts				
	Idukki	Alappuzha	Thrissur	Ernakulam	All-units
Government Incentive	16.8	-	11.4	10.3	11.20
Own Initiative	38.5	43.8	34.2	34.6	36.69
Warm Circle Encouragement	12.5	7.9	16.3	12.8	13.03
Profit or Income	32.2	42.7	31.2	40.7	35.98
Others	-	5.6	6.9	1.6	3.10
Total	100	100	100	100	100

Source: Survey Data.

A look at Table 4.15 reveals the fact that all units without any significance to the districts to which they belong prefer own initiative and

profit to government incentive and other factors. Units in Alappuzha district have given least importance for government incentive. Warm circle encouragement is given more preference by units of Thrissur District (13.03percent).

Basis of Loan

All the financial institutions on receiving the application for loan together with the project report scrutinise both the statements thoroughly. Loans are granted to the units after considering several factors like entrepreneur's integrity, capacity, viability and feasibility of the project, collateral security offered and profitability of the unit keeping pace with the time the institutions change their priorities. The survey made by the scholar reveals how the entrepreneurs see the viewpoints of the financial institutions.

Table 4.16

Distribution of Sample Units by Basis of Loan (Institution-wise)

(In Percentage)

Basis of Loan	Institutions			
	KFC aided	KSIDC aided	Bank aided	Average
Entrepreneurship and Capacity	30.3	29.5	30.2	30.1
Project Report & Viability	36.4	42.1	33.9	36.3
Collateral Security	33.0	27.4	35.5	33.1
Others	0.4	1.1	0.4	0.5
Total	100	100	100	100

Source: Survey Data.

In general, the factor project report is given first preference (36.3 percent). From Table 4.16 it can be seen that out of the 32 KFC aided units 36.4 percent of the owners believe that institutions give their first priority to project report, second preference to collateral security and finally to capacity of the entrepreneur. Among the KSIDC aided units more weightage is seen for the same point followed by entrepreneur's capacity and then collateral security. When the opinion of the bank aided units is analysed it is seen that first priority is given to security, then to project report and finally to the capacity of the entrepreneurs. However all these points are given almost equal weightage irrespective of the institution financed.

Table 4.17

Distribution of Sample Units by Basis of Loan(District-wise)

(In Percentage)

Basis of Loan	Districts				
	Idukki	Alappuzha	Thrissur	Ernakulam	Average
Entrepreneurship & Capacity	35.4	25.6	32.1	25.3	30.1
Project Report & Viability	37.7	35.6	37.0	34.5	36.3
Collateral Security	26.9	38.9	29.7	39.7	33.1
Others	0	0	1.2	0.6	0.5
Total	100	100	100	100	100

Source: Survey Data.

Units of Idukki district and Thrissur district are of the opinion that the financial institutions give more priority to the project report and its viability

(37.7 percent and 3.7 percent). But units of Alappuzha and Ernakulam districts have a feeling that collateral security is given prime importance.

But on discussion with the top authorities of all the three institutions it is found that the basis of these institutions is changing according to the need. While at the end of 1980s general priority was only for collateral security, during 1990s project report is given the first priority and in the late 1990s and in the new century financial institutions give too much importance to the entrepreneurial ability, integrity and determination of the entrepreneur or the man at the top of the unit.

Opinion about the Rate of Interest

The unit holders decide to borrow money from a particular institution after considering several factors of which the most important is the rate of interest on the loan.

Table 4.18

Distribution of Sample Units by Borrower's Opinion about Rate of Interest
(Institution-wise)

(In Percentage)

Opinion about Rate of Interest	Institutions						Total	
	KFC aided (No.)	%	KSIDC aided (No.)	%	Bank aided (No.)	%	No.	%
Very high	16	50	10	83	23	72	49	64
High	9	28	2	17	5	16	16	21
Moderate	7	22	-	-	3	9	10	13
Low	-	-	-	-	1	3	1	2
Total	32	100	12	100	32	100	76	100

Source: Survey Data

It is seen from Table 4.18 that out of the total 76 units, while 64 percent recorded that interest rate is very high, 21 percent reported that the rate is high, thus totally 85 percent has the complaint that the rate is high. Among the three institutions, less customers of KFC have reported the rate of interest to be high (KFC 78 percent KSIDC 90 percent Bank 88 percent). This may be because some of the customers of KFC enjoy the concessions in the rate, on prompt payment.

Table 4.19

Distribution of Sample Units by Borrower's Opinion about Rate of Interest (District-wise)

Opinion about Rate of Interest	Districts									
	Idukki		Alappuzha		Thrissur		Ernakulam		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%
Very high	8	47	11	65	11	58	19	83	49	64
High	5	29	2	12	6	32	3	13	16	21
Moderate	4	24	3	17	2	10	1	4	10	13
Low	-	-	1	6	-	-	-	-	1	2
Total	17	100	17	100	19	100	23	100	76	100

Source: Survey Data

While generally 85 percent of the samples reports very high and high rate of interest 96 percent of the units of Ernakulam district alone feels that the rates are very high and high. More proportion of the units of Idukki & Alappuzha feels that the rate is moderate.

Gap between Amount of Loans Requested and Sanctioned

The financial institutions after scrutinising the project report, will estimate the amount required for the project for which the loan is applied. Then, based on that figure the loan to be sanctioned is fixed. It may be the same as applied amount or it may be lesser.

The experience of the 76 entrepreneurs is shown in Table 4.20.

Table 4.20

Distribution of Sample Units by Existence of Amount Gap (Institution-wise)

Gap	Institutions						Total	
	KFC aided (No.)	%	KSIDC aided (No.)	%	Bank aided (No.)	%	No.	%
Exists	11	34	2	17	6	19	19	25
Does Not Exist	21	66	10	83	26	81	57	75
Total	32	100	12	100	32	100	76	100

Source: Survey Data

Table 4.20 reveals the fact that out of the 76 units, 75 percent of the units obtained the full amount of loan for which they had applied. Only 25 percent of the units got less than what they had applied for. KFC granted full amount of loan applied to 66 percent, KSIDC to 83 percent and Banks to 81 percent of the applied amount.

Now-a-days it is seen that if the projects are proved to be viable and feasible all the financial institutions are ready to finance the full amount of loan.

Table 4.21

Distribution of Sample Units by Existence of Amount Gap (District- wise)

Gap	Districts									
	Idukki		Alappuzha		Thrissur		Ernakulam		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%
Exists	3	18	4	24	4	21	8	35	19	25
Does not exist	14	82	13	76	15	79	15	65	57	75
Total	17	100	17	100	19	100	23	100	76	100

Source: Survey Data

When analysed district- wise, it can be seen that out of the 17 units of Idukki, 82 percent, out of 17 units of Alappuzha 76 percent, out of 19 units of Thrissur, 79 percent and out of 23 units of Ernakulam 65 percent of the applied amount was sanctioned. Units of Ernakulam district get lesser amount of applied amount as seen from Table 4.21.

Time Taken to Sanction the Loan

The financial institutions sanction the loan amount after scrutinising the application form and project report.

Service Charge

All the financial institutions charge a nominal amount for their service, charged as processing charge. It varies from one institution to the other. It is based on the quantum of loan sanctioned. Besides this, the entrepreneur has to incur legal verification fee, property valuation charges and documentation fee.

Table 4.24

Distribution of Sample Units by Average Service Charge (Institution- wise)

Average Service Charge	Institutions			
	KFC aided	KSIDC aided	Banks aided	Average
In Percentage	1.04	0.50	0.54	0.75

Source: Survey Data

From Table 4.24 it is evident that among the three financial institutions, KFC charges comparatively a higher rate of processing charge (1.04 percent when compared with KSIDC (0.50 percent) and Banks (0.54 percent). The average processing charge for these three institutions together amounts to 0.75 percent. The rate of KSIDC is found to be the least because the charge is on the basis of slab system and as KSIDC grants huge amount the rate of processing charge is less.

Table 4.25

Distribution of Sample Units by Average Service Charge (District-wise)

Average Service Charge	Districts				
	Idukki	Alappuzha	Thrissur	Ernakulam	Average
In Percentage	0.62	1.20	0.92	0.48	0.75

Source: Survey Data.

Table 4.25 reveals the fact that among the four districts surveyed the financial institutions charge lesser processing charge from units of Ernakulam district (0.48 percent) than from other districts, Alappuzha records the highest (1.20 percent). The rate is the lowest in Ernakulam because Ernakulam has more of KSIDC financed units for which bigger loans are given. Service charge is calculated on slab system. So in effect the service charge tends to be low.

Instalment of Loan

All the three financial institutions release the loan amount in instalments. The number of instalments varies from customer to customer. The following Table shows the details of instalments.

Table 4.26

Distribution of Sample Units by Number of Instalments (Institution-wise)

No. of Instalments	Institutions						Total	
	KFC aided (No.)	%	KSIDC aided (No.)	%	Bank aided (No.)	%	No.	%
One	9	28	-	-	13	41	22	29
Two	2	6	-	-	2	6	4	5
Three	9	28	5	42	10	31	24	32
Four and above	12	38	7	58	7	22	26	34
Total	32	100	12	100	32	100	76	100

Source: Survey Data.

Out of the 76 units studied 66 percent of the units received the amount in 3 or more instalments. Only 29 percent of the entrepreneurs insisted for the amount in one instalment.

Table 4.26 reveals that out of the KFC aided units 28 percent obtained the amount in one instalment, 6 percent in two instalments, 28 percent in 3 instalments and 38 percent in four and more instalments. Out of the 12 surveyed units of KSIDC, 42 percent availed loans in 3 instalments and 58 percent in four and more instalments. None of the KSIDC aided units availed the loan in one or two instalments may be because the loan amounts are huge.

Table 4.27

Distribution of Sample Units by Number of Instalments (District- wise)

No. of Instalments	Districts									
	Idukki		Alappuzha		Thrissur		Ernakulam		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%
One	4	24	9	53	7	37	2	9	22	29
Two	1	4	-	-	2	10	1	4	4	5
Three	8	48	3	18	6	32	7	13	24	32
Four and above	4	24	5	29	4	21	13	57	26	34
Total	17	100	17	100	19	100	23	100	76	100

Source: Survey Data

Table 4.27 reveals the fact that while out of the units from Alappuzha 53 percent availed themselves of the loan amount in one instalment, 47

percent of the units of Thrissur availed the amount in one or two instalments. Eighty seven percent of the units from Ernakulam and 72 percent of the units from Idukki availed themselves of the the loan in 3 or more instalments.

Gestation Period of the Loan

Loans are repayable after a holiday or a grace period after availing themselves or the amount known as gestation. Gestation period is allowed to the customers so that, by that time the income generation might have started.

Table 4.28

Distribution of Sample Units by Gestation Period (Institution-wise)

Gestation Period	Institutions						Total	
	KFC aided (No.)	%	KSIDC aided (No.)	%	Bank aided (No.)	%	No.	%
Below 3 Months	7	22	-	-	4	13	11	15
Between 4 & 6 Months	7	22	-	-	6	19	13	17
Between 6 & 12 Months	7	22	6	15	13	14	26	34
Above 1 Year	11	34	6	50	9	28	26	34
Total	32	100	12	100	32	100	76	100

Source: Survey Data.

Table 4.28 reveals that out of the KFC aided units 56 percent enjoyed a gestation period of 6 months and more and out of KSIDC aided units, all enjoyed a period of 6 months and more. 68 percent of the bank aided units

also enjoyed a gestation period of 6 months and more. In the case of KSIDC aided units as the projects are big most of the units require longer gestation period.

Table 4.29

Distribution of Sample Units by Gestation Period (District- wise)

Gestation Period	Districts									
	Idukki		Alappuzha		Thrissur		Ernakulam		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%
Below 3 Months	5	29	2	12	3	16	1	4	11	15
Between 4 & 6 Months	5	29	5	29	3	16	-	-	13	17
Between 6 & 12 Months	3	17	6	34	5	26	12	52	26	34
Above 1 Year	4	25	4	25	8	42	10	44	26	44
Total	17	100	17	100	19	100	23	100	76	100

Source: Survey Data.

Table 4.29 reveals that while 96 percent of units of Ernakulam and 68 percent units of Thrissur availed a gestation period of six months and more, 59 percent of units of Alappuzha and 42 percent of units of Idukki enjoyed a gestation period of 6 months and more.

Table 4.30

Distribution of Sample units by Opinion about Gestation Period
(Institution-wise)

Gestation Period	Institutions						Total	
	KFC aided (No.)	%	KSIDC aided (No.)	%	Bank aided (No.)	%	No.	%
Reasonable	21	66	12	100	28	88	61	80
Not Reasonable	11	34	-	-	4	12	15	20
Total	32	100	12	100	32	100	76	100

Source: Survey Data

Table 4.30 shows that all the KSIDC aided units are satisfied with the gestation period. It may be because all of them enjoyed a period more than 6 months.

Table 4.31

Distribution of Sample Units by Opinion about Gestation Period
(District-wise)

Gestation Period	Districts									
	Idukki		Alappuzha		Thrissur		Ernakulam		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%
Reasonable	15	88	12	71	13	68	21	90	61	80
Not Reasonable	2	12	5	29	6	32	2	10	15	20
Total	17	100	17	100	19	100	23	100	76	100

Source: Survey Data.

Table 4.31 reveals the fact that majority of the customers are satisfied with the gestation period. While 90 percent of customers from Ernakulam are satisfied only 68 percent of customers from Thrissur are satisfied with the gestation period.

Increase in the Project Cost

The estimated project cost and the actual project cost may vary due to the cost overruns. Usually, as the prices of different elements are on an increasing trend the actual cost exceeds the estimated cost. The charge may vary from customer to customer. As financial institutions insist on the preparation of project reports, an element for unforeseen contingencies is included and therefore the customers have provided some amount for the cost overruns.

Table 4.32 and Table 4.33 reveal the magnitude of the cost overruns.

Table 4.32

Average Increase in Cost (Institution-wise)
(In Percentage of Estimated Cost)

Particulars	Institutions			Average in Cost
	KFC aided	KSIDC aided	Banks aided	
Average Increase in Cost	2.84	2.84	4.03	3.58

Source: Survey Data.

When the average increase in cost is analysed it can be seen that average increase in cost for KFC aided units is the minimum. It may be

because as KFC finance small enterprises mainly, their gestation period is small and within a small period the changes can be controlled. The average increase in cost for KSIDC aided units is the highest.

Table 4.33

Average Increase in Cost (District- wise)

(In Percentage of Estimated Cost)

Particulars	Districts				Average increase
	Idukki	Alappuzha	Thrissur	Ernakulam	
Average Increase in Cost	3.00	5.42	2.32	3.52	3.58

Source: Survey Data

When the increase in cost is analysed district wise, Thrissur has the lowest increase and Alappuzha has the highest increase. The average increase amounted to 3.58 percent of the estimated cost of project as evidenced by Table 4.33.

Repayment Schedule of the Loan

Loans are repayable in instalments. It may be monthly, quarterly, half yearly or annual. The longer the interval the lighter will be the burden on the borrower. Table 4.34 and Table 4.35 throw light on the repayment schedule of the loan.

Table 4.34

Distribution of Sample Units by Repayment Schedule
(Institution-wise)

Repayment Schedule	Institutions						Total	
	KFC aided		KSIDC aided		Bank aided			
	No	%	No	%	No	%	No	%
Monthly	24	75	8	67	24	75	56	74
Quarterly	6	19	1	8	4	13	11	14
Half Yearly	2	6	3	25	3	9	8	11
Annualy	--	--	--	--	1	3	1	1
Total	32	100	12	100	32	100	76	100

Source: Survey Data

Out of the 76 units, 56 (74percent) units had a schedule of monthly repayment and only one unit had an annual instalment. Out of the KFC, KSIDC and bank aided units, 75 percent, 67 percent and 75 percent had a monthly schedule of repayment

Table 4.35

Distribution of Sample Units by Repayment Schedule
(District-wise)

Repayment Schedule	Districts								Total	
	Idukki		Alappuzha		Thrissur		Ernakulam			
	No	%	No	%	No	%	No	%	No	%
Monthly	13	76	11	65	13	68	19	82	56	74
Quarterly	2	12	5	29	2	11	2	9	11	14
Half Yearly	2	12	--	--	4	21	2	9	8	11
Annualy	--	--	1	6	--	--	--	--	1	1
Total	17	100	17	100	19	100	23	100	76	100

Source: Survey Data.

Similarly 76 percent, 65 percent, 68 percent and 82 percent of the units assisted from Idukki, Alappuzha, Thrissur and Ernakulam districts respectively had a schedule of monthly repayment. The unit which had a schedule of annual repayment was reported from Alappuzha district as revealed by Table 4.35.

Delay in Repayment

All the borrowers are expected to repay their loan instalments on or before the due date of repayment. It is seen that some of the borrowers were unable to make the repayment in time due to some reasons. Table 4.36 and 4.37 reveal the institution-wise and district-wise classification.

Table 4.36

Distribution of Sample Units by Delay in Repayment
(Institution-wise)

Delay	Institutions						Total	
	KFC aided		KSIDC aided		Bank aided			
	No	%	No	%	No	%	No	%
Exists	6	35	9	53	6	32	27	36
Does not exist	11	65	8	47	13	68	49	64
Total	17	100	17	100	19	100	76	100

Source: Survey Data

Out of the total units, 36 percent agreed that they have made a delay in the repayment of the loan taken. Out of the KFC, KSIDC and bank aided units, 53 percent, 33 percent and 19 percent respectively admitted that they have made a delay in repayment as seen in Table 4.36.

Table 4.37

Distribution of Sample Units by Delay in Repayment

(District –wise)

Delay	Districts								Total	
	Idukki		Alappuzha		Thrissur		Ernakulam			
	No	%	No	%	No	%	No	%	No	%
Exists	6	26	17	53	4	33	6	19	27	36
Does not exist	17	74	15	47	8	67	26	81	49	64
Total	23	100	32	100	12	100	32	100	76	100

Source: Survey Data.

Table 4.37 shows that fifty three percent of the units of Alappuzha reported a failure in the repayment.

Reasons for the delay in repayment has been analysed and mainly 6 reasons are reported. Table 4.38 will reveal the reasons clearly.

Table 4.38

Distribution of Sample Units by Reasons of Delay in Repayment of Loans
(Institution-wise)

(In percentage)

Reasons for Delay	Institutions			
	KFC aided	KSIDC aided	Bank aided	Total
Low Turnover	24	10	22	20
Low Profit	31	35	20	28
Diversion of Funds for Other Business Purpose	4	10	--	4
Fund Used for Private Purpose	5	17	33	17
Delay in Production	15	9	5	12
Tight Repayment	17	--	--	10
Others	4	19	20	9
Total	100	100	100	100

Source: Survey Data.

Table 4.38 reveals that out of the six problems for the delay in repayment, generally, low profits is the prominent one and next to it is low turnover. Seventeen percent of the entrepreneurs who made the delay admitted that they have diverted the amount received for private purposes.

Delay in production is reported as an important reason for delay by the KFC aided units, besides low turnover and low profits. For KSIDC aided units and bank aided units third important reason for delay is diversion of funds for the private purpose.

Table 4.39

Distribution of Sample Units by Reasons for Delay in Repayment of Loans
(District-wise)

(In Percentage)

Reasons for Delay	District				
	Idukki	Alappu- zha	Thrissur	Erna- kulam	Total
Low Turnover	23	28	16	15	20
Low profit	24	30	36	25	28
Diversion of Funds for Other Business Purpose	3	--	8	7	4
Fund Used for Private Purpose	15	11	10	22	17
Delay in Production	18	16	7	4	12
Tight Repayment	12	11	--	16	10
Others	5	4	23	11	9
Total	100	100	100	100	100

Source: Survey Data.

It can be seen from Table 4.39 that entrepreneurs in Idukki district, admit their third reason as delay in production, first to low profits and second to low turnover. Entrepreneurs of Alappuzha district also report in the same way. Entrepreneurs of Ernakulam district admit that 22 percent of them have utilised the loan for private purposes.

Utilisation of Term Loan

All the financial institutions grant term loans on the condition that it would be used for meeting fixed expenses. Table 4.40 and Table 4.41 will reveal the utilisation of loan, institution wise and district-wise.

Table 4.40

Distribution of Sample Units by Utilisation of Term Loan

(Institution-wise)

Utilisation	Institutions						Total	
	KFC aided		KSIDC aided		Bank aided			
	No.	%	No.	%	No.	%	No.	%
Financing fixed assets	30	94	11	92	31	97	72	95
Meeting current expense	2	6	1	8	1	3	04	5
Total	32	100	12	100	32	100	76	100

Source: Survey Data.

It is noted that eventhough it is minimal, a very small portion of term loan has been used for meeting current expenses, which is contradictory to the terms and conditions of the loans in the usual context

Table 4.41
Distribution of Sample Units by Utilisation of Term Loan
(District -wise)

Utilisation	Districts								Total	
	Idukki		Alappuzha		Thrissur		Ernakulam			
	No.	%	No.	%	No.	%	No.	%	No.	%
Financing fixed assets	16	94	15	88	19	100	22	83	72	95
Meeting current expense	1	6	2	12	--	--	1	17	04	5
Total	17	100	17	100	19	100	23	100	76	100

Source: Survey Data.

Thrissur district has extended 100 percent discipline in respect of utilisation of loan as seen in Table 4.41.

Availability of Working Capital Loan

All the units require working capital to meet their day-to-day expenses and for purchasing the raw material. Based upon the need for working capital the units have to depend on the banks to get working capital loan. As per Nayak Committee recommendations, in the case of small scale industries, 20 percent of the turnover is to be reckoned for working capital finance¹.

Table 4.42
Distribution of Sample Units by Availability of Twenty Percent of Turnover as Working Capital Loan (Institution-wise)

20% of Turnover	Institutions						Total	
	KFC aided		KSIDC aided		Bank aided			
	No.	%	No.	%	No.	%	No.	%
Received	21	66	12	100	24	75	57	75
Not Received	11	34	--	--	8	25	19	25
Total	32	100	12	100	32	100	76	100

Source: Survey Data.

From Table 4.42 it can be seen that all KSIDC units enjoyed 20 percent or more of their turnover as working capital loan while out of KFC aided and bank aided units only 66 percent and 75 percent enjoyed 20 percent or more of their turnover as working capital.

Table 4.43

Distribution of Sample Units by Availability of Twenty Percent of Turnover as Working Capital Loan (District wise)

20% of Turnover	Districts								Total	
	Idukki		Alappuzha		Thrissur		Ernakulam			
	No	%	No	%	No	%	No	%	No	%
Received	11	65	15	88	14	74	17	74	57	75
Not Received	6	35	2	12	5	26	6	26	19	25
Total	17	100	17	100	19	100	23	100	76	100

Source: Survey Data.

As seen from Table 4.43 Alappuzha is the most benefited district in obtaining 20 percent of the turnover as working capital loan which clocked 88 percent Idukki, is having the lowest i.e., 65 percent.

Table 4.44

Distribution of Sample Units by Availability of Working Capital Loan as Percentage of Turnover (Institution –wise)

Loan as % of turn over	Institutions			Total
	KFC aided	KSIDC aided	Bank aided	
Below 5%	1	--	--	1
6% - 10%	2	--	1	3
11% - 15%	3	--	2	5
16% - 20%	35	--	5	10
Total	11	--	8	19

Source: Survey Data.

Out of the total 76 units studied, 19 units have not received the minimum required 20 percent of turnover as working capital finance. Like wise, 1 out of 11 units financed by KFC received below 5 percent, 2 units received between 6 percent and 10 percent, 3 units received between 11 percent and 15 percent. The remaining 5 units received between 16 percent and 20 percent. Out of the bank aided units, one received a loan amount between 6 percent and 10 percent, 2 units bagged a loan between 11 percent and 15 percent and 5 units received between 16 percent and 20 percent.

Table 4.45

Distribution of Sample Units by Availability of Working Capital Loan as Percentage of Turnover (District –wise)

Loan on % of turn over	Districts				Total
	Idukki	Alappuzha	Thrissur	Ernakulam	
Below 5%	--	--	1	--	1
6% - 10%	1	1	--	1	3
11% - 15%	2	1	--	2	5
16% - 20%	3	--	4	3	10
Total	6	2	5	6	19

Source: Survey Data.

Out of the 19 units only one is below 5 percent; which is from Thrissur District as seen from Table 4.45.

Utilisation of Working Capital Loan

Working capital loan is to meet the day-to-day expenses, viz., purchase of raw materials and meet with current expenses. Table No. 4.46 and 4.47 reveal the responses of the entrepreneurs.

Table 4.46

Distribution of Sample Units by Utilisation of Working Capital Loan

(Institution –wise)

Utilisation	Institutions						Total	
	KFC aided		KSIDC aided		Bank aided			
	No.	%	No.	%	No.	%	No.	%
Purchase of Raw Materials and Meeting Current Expense	22	69	12	100	23	72	57	75
Purchase of Fixed Assets	6	19			6	19	12	16
Both the above	2	6			2	6	4	5
Raw Materials, Current Expenses and Private Expenditure	2	6	-	-	1	3	3	4
Total	32	100	12	100	32	100	76	100

Source: Survey Data.

It can be seen from Table 4.46 that out of the 76 units, 75 percent used the loans for the purpose for which it was meant. The balance of 25 percent spent the loan amount either for purchasing fixed assets or to meet private expenses or both.

Both KFC aided and bank aided units practised in the same way, i.e., spent 28 percent for the expenses.

Table 4.47

Distribution of Sample Units by Utilisation of Working Capital Loan

(District –wise)

Utilisation	Districts								Total	
	Idukki		Alappuzha		Thrissur		Ernakulam			
	No.	%	No.	%	No.	%	No.	%	No.	%
Purchase of Raw Materials and Meeting Current Expense	10	59	13	76	17	89	17	74	57	75
Purchase of Fixed Assets	5	29	4	24	-	-	3	13	12	16
Both the above	1	6	-	-	-	-	3	13	4	5
Raw Materials, Current Expenses and Private Expenditure	1	6	-	-	2	11	-	-	3	4
Total	17	100	17	100	19	100	23	100	76	100

Source: Survey Data.

It can be seen from Table 4.47 that out of the four districts, Idukki revealed the malpractice of using the loan for other purposes (41 percent). 76 percent and 89 percent of the units in Alappuzha and Thrissur used it for the purpose for which it was meant.

Practice of Discounting Cheques

Industrial units with marketing net works receive cheques drawn by the purchaser on banks of other places. They usually discount the same if immediate cash is needed; otherwise they will send it for collection.

Table 4.48

Distribution of Sample Units by Discounting of Cheques

(Institution –wise)

Practice of Discounting	Institutions						Total	
	KFC aided		KSIDC aided		Bank aided			
	No.	%	No.	%	No.	%	No.	%
Exists	15	47	10	83	24	75	49	64
Does not exist	17	53	2	17	8	25	27	36
Total	32	100	12	100	32	100	76	100

Source: Survey Data.

Practice of discounting cheques is usually seen in larger units. The above Table confirms this view. 83 percent of the KSIDC aided units and 75 percent of the Bank aided units follow the practice of discounting cheques.

Table 4.49

Distribution of Sample Units by Discounting of Cheques (District –wise)

Practice of Discounting	Districts								Total	
	Idukki		Alappuzha		Thrissur		Ernakulam			
	No.	%	No.	%	No.	%	No.	%	No.	%
Exists	8	47	9	53	13	68	19	83	49	64
Does not exist	9	53	8	47	6	32	4	17	27	36
Total	17	100	17	100	19	100	23	100	76	100

Source: Survey Data.

Ernakulam (83 percent) and Thrissur (68 percent) units have the practice of cheque discounting. But in Idukki district, habit of cheque discounting is less

Collection of Cheques

The units with marketing network arrangements usually accept cheques for having supplied goods. They have to send it for collection, if it is drawn on banks of other places. Average time for collection of cheques is estimated at less than 2 weeks, which is considered to be the ideal.

Table 4.50

Distribution of Sample Units by Collection of Cheques(Institution –wise)

Collection period in weeks	Institutions						Total	
	KFC aided		KSIDC aided		Bank aided			
	No.	%	No.	%	No.	%	No.	%
Below 1	3	9	2	17	3	9	8	11
Between 1-2	13	41	4	33	13	41	30	39
Above 2	16	50	6	50	16	50	38	50
Total	32	100	12	100	32	100	76	100

Source: Survey Data.

Table 4.50 reveals that fifty percent of the total units have to bear average collection period of more than 2 weeks. It seems to be on the higher side under the present context. Duration can be minimised on introduction of the latest technology.

In the case of all the three categories of industrial units, 50 percent have to wait for a period more than two weeks for getting the cheques collected.

Table 4.51

Distribution of Sample Units by Collection of Cheques(District –wise)

Collection period in weeks	Districts								Total	
	Idukki		Alappuzha		Thrissur		Ernakulam			
	No.	%	No.	%	No.	%	No.	%	No.	%
Below 1	--	--	1	16	4	21	3	13	8	11
Between 1-2	8	47	9	53	8	42	5	22	30	39
Above 2	9	53	7	41	7	37	15	65	38	50
Total	17	100	17	100	19	100	23	100	76	100

Source: Survey Data.

As seen in Table 4.51 collection of cheques with a minimum duration of less than a week is not recorded in Idukki, reason may be the isolated area with full of mountains/hills. Fifty three percent of Idukki units as well as 65 percent of Ernakulam units have to wait for more than 2 weeks; whereas it is 41 percent and 37 percent for Alappuzha and Thrissur units.

Difficulty in Getting the Loan

Loans are given by the financial institutions on presentation of properly prepared application forms and viable project reports. The opinions of the entrepreneurs on the difficulties faced by them were analysed. Table 4.52 and Table 4.53 will disclose the existence of difficulties in detail.

Table 4.52
Distribution of Sample Units by the Existence of Difficulties Faced
(Institution –wise)

(In Percentage)

Difficulty in getting the loan	Institutions						Total	
	KFC aided		KSIDC aided		Bank aided			
	No.	%	No.	%	No.	%	No.	%
Exists	19	59	--	--	8	25	27	36
Does not exist	13	41	12	100	24	75	49	64
Total	32	100	12	100	32	100	76	100

Source: Survey Data

Table 4.52 shows that out of the 76 units surveyed 27 percent admit that they faced some problems in getting loans. While all the customers of KSIDC admit that they did not have any difficulty in getting the loan, 59 percent of KFC aided and 25 percent of banks aided units report that they have difficulties in getting the loan.

Table 4.53

Distribution of Sample Units by the Existence of Difficulties Faced

(District –wise)

(In Percentage)

Difficulty in getting the loan	Districts								Total	
	Idukki		Alappuzha		Thrissur		Ernakulam			
	No.	%	No.	%	No.	%	No.	%	No.	%
Exists	6	35	4	24	9	47	8	35	27	36
Does not exist	11	65	13	76	10	53	15	65	49	64
Total	17	100	17	100	19	100	23	100	76	100

Source: Survey Data.

It is seen from Table 4.53 that 35 percent of entrepreneurs from Idukki, 24 percent of Alappuzha, 47 percent of Thrissur and 35 percent of entrepreneurs from Ernakulam admitted that they had difficulties.

Further analysis was made to know more about the difficulties Table 4.54 and Table 4.55 reveal the magnitude of difficulties.

Table 4.54
Distribution of Sample Units by Difficulties Faced
(Institution –wise)

(In Percentage)

Difficulties	Institutions			All Units
	KFC aided	KSIDC aided	Banks aided	
Too many documents	26	--	20	24
Complicated Procedure	33	--	32	33
Inconsistent behaviour of the officials	4	--	10	6
Delay in clearance of documents	19	--	19	19
Problems of Security	18	--	16	17
	100	--	100	100

Source: Survey Data.

Out of the difficulties, complicated procedure with a score of 33 percent emerged as the most important problem, next to the existence of many documents and delay in clearance of documents as revealed by Table 4.53.

The KFC aided units recorded the same problems in the same order and recorded the problem of security as the 4th one. Out of the districts, Idukki recorded the first priority to the problems of complicated procedure, second priority to the problem of security and problem of clearance of documents as third one.

Table 4.55
Distribution of Units by Difficulties Faced
(District –wise)

(in Percentage)

Difficulties	Districts				All Units
	Idukki	Alappuzha	Thrissur	Ernakulam	
Too many documents	17	29	22	35	24
Complicated Procedure	34	26	27	44	33
Inconsistent behaviour of the officials	4	--	13	3	6
Delay in clearance of documents	21	13	27	9	19
Problems of Security	24	32	8	8	17
Total	100	100	100	100	100

Source: Survey Data.

Table 4.55 reveals that among the units of Alappuzha, the major problem reported was that of security (32percent) followed by too many documents and complicated procedure. Entrepreneurs in Thrissur faced with two major difficulties viz., complicated procedure and delay in clearance of documents followed by too many documents as the third difficulty. Ernakulam had only two major difficulties, i.e. complicated procedure (44 percent) and too many documents (35 percent)

Monitoring of Loan

The officers of the financial institutions should make a follow up after sanctioning the loans to monitor the deployment of the money. Only if the borrowers are directed properly would they be able to repay the amount in time. Table 4.56 and Table 4.57 will reveal whether monitoring is done.

Table 4. 56

Distribution of Sample Units by Monitoring of Loan (Institution –wise)

Monitoring of Loans	Institutions						Total	
	KFC aided		KSIDC aided		Bank aided			
	No.	%	No.	%	No.	%	No.	%
Exists	26	81	10	83	31	97	67	88
Does not exist	6	19	2	17	1	3	9	12
Total	32		12		32		76	

Source: Survey Data.

Out of the 76 units studied 88 percent reported that their financial institutions are monitoring the loan deployment as shown in Table 4.56.

While banks monitored 97 percent of the cases, KSIDC monitored 83 percent and KFC monitored 81 percent of the cases. The lowest rate of monitoring is seen in KFC aided units. On enquiry it is found that KFC would not monitor the loan if there is no default or defect.

Table 4. 57

Distribution of Sample Units by Monitoring of Loan (District–wise)

Monitoring of Loans	Districts								Total	
	Idukki		Alappuzha		Thrissur		Ernakulam			
	No.	%	No.	%	No.	%	No.	%	No.	%
Exists	17	100	13	-16	18	95	19	83	67	88
Does not exist	--	--	4	24	1	5	4	17	9	12
Total	17		17		19		23		76	

Source: Survey Data.

It can be seen from Table 4.57 that out of the districts, monitoring of loans is done perfectly in Idukki followed by Thrissur and Ernakulam.

The financial institutions may adopt different measures to monitor the loans. Monitoring in time will cause the prevention of delay in repayment of the loan.

Table 4.58

Distribution of Sample Units by Monitoring Measures(Institution –wise)

Monitoring Measures	Institutions			Total
	KFC aided	KSIDC aided	Banks aided	
Monthly Report	2	3	2	7
Visiting the units	11	3	2	16
Both the above	6	--	23	29
Monthly report and cashflow	1	--	1	2
Visit and cashflow	4	--	1	5
Monthly Report, Visit and Cashflow	2	4	2	8
Total	26	10	31	67

Source: Survey Data.

Table 4.58 and Table 4.59 study about the monitoring measures adopted by the financial institutions. The measures can be insistence on monthly reports, cash flow statements, visit to the units or a combination of these measures. It can be seen that out of 67 units the most commonly used measure is the combined one of monthly report and visiting the units applied on 43 percent of the units. The financial institutions will adopt more measures if need arises. It can be understood from the figures in the 6th row, i.e., monthly report, visit and cash flow are adopted by the institutions when need arose.

Table 4.59

Distribution of Sample Units by Monitoring Measures(District-wise)

Monitoring Measures	Districts				Total
	Idukki	Alappuzha	Thrissur	Ernakulam	
Monthly Report	--	4	--	3	7
Visiting the units	4	7	4	1	16
Both the above	11	1	10	7	29
Monthly report and cashflow	1	--	1	--	2
Visit and cashflow	1	--	1	3	5
Monthly Report, Visit and Cashflow	--	1	2	5	8
Total	17	13	18	19	67

Source: Survey Data

It can be seen from Table 4.59 that the financial institutions irrespective of the districts apply the measures.

Length of Working Capital Cycle

The operating cycle of a firm begins with the acquisition of raw materials and ends with the collection of receivables. There are four aspects of the operating cycle, which involve commitment of resources: raw material stage; work in process stage; finished goods stage; and accounts receivable stage². The working capital cycle concept can be used for estimating the working capital requirements of a firm.

Table 4.60

Distribution of Sample Units by Length of Working Capital Cycle
(Institution-wise)

Length in months	Institutions						Total	
	KFC aided		KSIDC aided		Bank aided			
	No.	%	No.	%	No.	%	No.	%
Below 1 monts	8	25	5	42	15	47	28	36
1-3 months	14	44	5	42	14	44	33	44
4-6 months	10	31	2	6	3	9	15	20
7-12 months	--	--	--	---	--	--	--	--
Total	32	100	12		32	100	76	100

Source: Survey Data.

Length of working capital cycle below 1 month recorded 25 percent in KFC aided units, whereas 42 percent and 47 percent respectively in KSIDC aided units and Bank aided units. Comparatively 1-3 months time is the common. Out of the total 76 units 36 percent belong to the category of below 1 month. 44 percent of units mark in 1-3 months category and 20 percent fall in the last one.

Table 4.61

Distribution of Sample Units by Length of Working Capital Cycle
(District-wise)

Length in months	Districts								Total	
	Idukki		Alappuzha		Thrissur		Ernakulam			
	No.	%	No.	%	No.	%	No.	%	No.	%
Below 1 monts	5	29	9	53	8	42	6	26	28	36
1-3 months	5	29	6	35	10	53	12	52	33	44
4-6 months	7	42	2	12	1	5	5	22	15	20
7-12 months	--	--	--	--	-	--	--	--	--	--
Total	17	100	17	100	19	100	23	100	76	100

Source: Survey Data.

Opinion about the Co-operation of the Staff

Unless financial institutions offer flexible, efficient and courteous approach, borrowers may tend to avoid those officials. Table 4.62 and 4.63 depict the opinion of the borrowers as to the co-operation extended by the staff.

Table 4.62

Distribution of Sample Units by Opinion about the Co-operation of the Staff
(Institution –wise)

Opinion	Institutions						Total	
	KFC aided		KSIDC aided		Bank aided		No.	%
	No.	%	No.	%	No.	%		
Quite satisfied	14	44	10	84	24	75	48	63
Somewhat satisfied	14	44	1	8	6	19	21	28
Not satisfied	4	12	1	8	2	6	7	9
Total	32	100	12		32	100	76	100

Source: Survey Data.

Sixty three percent of the 76 units constitute in the 'Quite Satisfied' Group. Only 9 percent exists in the dissatisfied category. 84 percent and 75 percent of KSIDC and Bank aided units represent the 'quite satisfied' group. Whereas 'quite satisfied' borrowers in KFC aided units is below normal.

Table 4.63

Distribution of Sample Units by Opinion about the Co-operation of the Staff
(District-wise)

Opinion	Districts								Total	
	Idukki		Alappuzha		Thrissur		Ernakulam		No.	%
	No.	%	No.	%	No.	%	No.	%		
Quite satisfied	8	47	11	65	12	63	17	74	48	63
Somewhat satisfied	7	41	6	35	5	26	3	13	21	28
Not satisfied	2	12	--	--	2	11	3	13	7	9
Total	17	100	17	100	19	100	23	100	76	100

Source: Survey Data.

It is glad to note that there is no dissatisfied customer in Alappuzha District and again customer satisfaction is on the higher level in Alappuzha district as seen in Table 4.63.

Receipt of Loan from Private Money Lenders

Usually the borrowers get the required amount of loan from the financial institutions. In order to avoid some cumbersome procedure /rules borrowers way tend to borrow money from private moneylenders even at exorbitant rates of interest.

Table 4.64

Distribution of Sample Units by Receipt of Loan from Money Lenders
(Institution –wise)

Receipt of Private Loan	Institutions						Total	
	KFC aided		KSIDC aided		Bank aided			
	No.	%	No.	%	No.	%	No.	%
Received	5	16	--	--	2	6	7	9
Not Received	27	84	12	100	30	94	69	91
Total	32	100	12	100	32	100	76	100

Source: Survey Data

Table 4.64 shows that ninety one percent of the 76 units under survey has not approached private money lenders which is quite appreciable. Likewise even a single unit assisted by KSIDC has not taken money from private money lenders. 84 percent and 94 percent of the KFC and KSIDC aided units have not approached the money lenders. From the above picture, we can understand that institutions are ready to finance more than 90 percent of their total demand.

Table 4.65

Distribution of Sample Units by Receipt of Loan from Money Lenders
(District-wise)

Receipt of Private Loan	Districts								Total	
	Idukki		Alappuzha		Thrissur		Ernakulam			
	No.	%	No.	%	No.	%	No.	%	No.	%
Received	--	--	5	29	1	5	2	9	7	9
Not Received	17	100	12	71	18	96	21	91	69	91
Total	17	100	17	100	19	100	23	100	76	100

Source: Survey Data.

It is happy to note that even a single unit under Idukki has not approached the private moneylenders as seen in Table 4.65.

Receipt of Government Assistances

To promote the industrial growth in the country Government may assist the entrepreneurs in the form of investment subsidy/interest subsidy or margin money loan. It may be called the contribution from the Government to cushion for the smooth running of the unit.

Table 4.66

Distribution of Sample Units by Receipt of Government Assistance
(Institution -wise)

Receipt of Govt. Assistance	Institutions						Total	
	KFC aided		KSIDC aided		Bank aided			
	No.	%	No.	%	No.	%	No.	%
Received	23	720	2	17	24	75	49	64
Not Received	9	28	10	83	8	25	27	36
Total	32	100	12	100	32	100	76	100

Source: Survey Data.

As evidenced by Table 4.66 sixty four percent of the total 76 units have received financial assistance from Government in the form of subsidy or otherwise. Institution- wise, KSIDC aided units constitute only 17 percent of the total assistance under study. Regarding the other two institutions KFC aided and Bank aided units are somewhat equal in receiving the Government assistance.

Table 4.67

Distribution of Sample Units by Receipt of Government Assistance

(District-wise)

Receipt of Govt. Assistance	Districts								Total	
	Idukki		Alappuzha		Thrissur		Ernakulam			
	No.	%	No.	%	No.	%	No.	%	No.	%
Received	13	76	11	65	14	73	11	48	49	64
Not Received	4	24	6	35	5	27	12	52	27	36
Total	17	100	17	100	19	100	23	100	76	100

Source: Survey Data.

Receipt of subsidy in Ernakulam district is comparatively lower, while Idukki's share is 76 percent, which is the highest in all the four districts under survey which is revealed by Table 4.67.

System of Wage Payment

According to the nature of employment and nature of product, system of wage payment differs from one unit to another unit. It may be daily, weekly, or monthly, as per the management decision.

Table 4.68

Distribution of Sample Units by Wage Payment

(Institution –wise)

System of Wage Payment	Institutions						Total	
	KFC aided		KSIDC aided		Bank aided			
	No.	%	No.	%	No.	%	No.	%
Monthly	16	50	9	75	24	75	51	67
Weekly	12	37	3	25	2	6	16	21
Daily	4	13	--	--	6	19	9	12
Total	32	100	12	100	32	100	76	100

Source: Survey Data

Table 4.68 shows that out of the total 76 units under study, 67 percent units are paying wages monthly whereas 21 percent weekly and 12 percent daily. No daily wage payment is reported in the KSIDC aided units, the reason may be bigger units. Being small units under KFC aided, monthly wages payment is seen restricted to 50 percent leaving 37 percent for weekly and 13 percent for daily.

Table 4.69

Distribution of Sample Units by Wage Payment (District-wise)

System of Wage Payment	Districts								Total	
	Idukki		Alappuzha		Thrissur		Ernakulam			
	No.	%	No.	%	No.	%	No.	%	No.	%
Monthly	11	65	7	41	17	90	16	70	51	67
Weekly	5	29	7	41	1	10	3	13	16	21
Daily	1	6	3	8	1	10	4	17	9	12
Total	17	100	17	100	19	100	23	100	76	100

Source: Survey Data.

As seen in Table 4.69 ninety percent and seven percent of Thrissur and Ernakulam units disburse their salary monthly. Payment of daily wages is seen less in number when compared with weekly and monthly payment.

Conclusion

The above analysis brings to light the following problems faced by industrial entrepreneurs.

Eighty five percent of the entrepreneurs felt that the rate of interest charged by the financial institutions is exorbitantly high. The time taken by these institutions to scrutinise the application forms and sanction the loans is very long. The financial institutions refrain from sanctioning the full amount of loans applied for. The gestation period allowed by the KFC seems to be very short in many cases. Only 75 percent of the entrepreneurs get twenty percent of their working capital requirement as loan. Fifty percent of the total units have to bear average collection period of more than two weeks seems to be on the higher side under the present context. Thirty three percent of the entrepreneurs find the procedure of getting loans complicated and lengthy. Nine percent of the entrepreneurs are not satisfied with the co-operation of the staff members of these financial institutions

Thus it seems that these financial institutions should be more customer friendly. These institutions can solve many of the above problems listed by the entrepreneurs, thus improving their performance. Hence the hypothesis H_1 , viz., for an effective role of the financial institutions they should be more customer friendly has been accepted. It seems fair to assess the performance of those units assisted by these institutions to get an idea regarding the role played by them. This is attempted in the next chapter.

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By

JANCY DAVY

Under the supervision of

PROF. (DR.) K. C. VIJAYAKUMAR

Department of Commerce and Management Studies

UNIVERSITY OF CALICUT

P. O. CALICUT UNIVERSITY

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CHAPTER V

PERFORMANCE OF THE AIDED UNITS

Introduction

In the previous chapter, an analysis has been made of the profile of units financed by the three financial institutions under study and impression and the feelings of the entrepreneurs about these institutions have been recorded. Industrial development hinges on the ease with which finance is raised for acquiring land and building, plant and machinery and other fixed assets and for purchasing raw materials from farms and mines and the speed with which money is advanced to take finished products to penetrate the market. It is in this context that the role of financial institutions becomes prominent. In this chapter an attempt is made to analyse the role played by these three institutions.

The role played by the financial institutions can be measured by the assistance given by them which is reflected through the performance of these assisted units. This does not however mean that the good or bad performance of these units is only because of the assistance given by these institutions, but it is one of the important reasons. Generally, the financial institutions evaluate the project before. Giving assistance in cash or providing technical assistance or advice to the entrepreneurs will definitely reflect in the performance of the

assisted units. Hence the importance of this analysis. The analysis is done with the help of two tools, viz.,

- 1) Financial ratio analysis
- 2) Altman's Z – Score test.

1. Financial Ratio Analysis

Ratio Analysis is a powerful tool for unraveling the underlying reasons for the financial structure, conditions and trends of business. Such an analysis helps in spotting reasons behind better or poor performance and in finding out significant deviations from any average or relatively applicable standards¹. In this part the financial strength of the sample units were assessed using financial ratios, based on the predictive capacity on business failure.

For the purpose of analysis

- a) Working capital means the difference between current assets and current liabilities.
- b) Total assets represent the difference between book value of total assets and the sum of miscellaneous expenses and accumulated losses of the organisation.
- c) Net worth denotes the capital employed in the organization by deducting current liabilities from net total assets.
- d) Retained earnings / losses are the sum of reserves and surpluses of the concern.
- e) Total liabilities represent total outsiders' liability of the organisation.

Five ratios are calculated for all the sample units to predict the health of the units. Based on the ratios computed, the units are grouped into three zones,

Viz., favourable zone (Healthy zone) unfavorable zone (Bankrupt Zone) and Grey Zone (ranges between favourable and unfavourable zone). Table 5.1 makes this classification clear.

Table 5.1
Classification of Units Based on Different Industrial Ratios

Serial Number	Ratios	Range		
		Unfavourable Zone (Bankrupt)	Grey Zone (Ranges between favourable and unfavourable)	Favourable Zone (Healthy)
X ₁	Working Capital to total Assets Ratios	Below 15%	Between 15% to 30%	Above 30%
X ₂	Retained Earnings to Total assets Ratio	Zero or below	Between 0 and 1%	Above 1%
X ₃	Earnings before interest and Taxes to Total Assets Ratio	Zero or below	Between zero and 10%	Above 10%
X ₄	Net worth to total Liabilities Ratio	Below 50%	Between 50% and 100%	Above 100%
X ₅	Sales to Total Assets Ratio	Below 50%	Between 50% and 100%	Above 100%

The above mentioned percentages and their ranges are fixed based on consultation with experts in the field. However, these are in line with the work done by Sukumaran A. namely "Budgeting in Selected Private and Public Undertakings in Kerala".

The conclusions obtained on the basis of the above classification were statistically tested using Altman's 'Z'-score test based on Multiple Discriminant Analysis. .

The results of the ratio analysis are given below.

X₁ Working Capital to Total Assets Ratio

The liquidity position of the selected concerns was measured with the help of working capital to total Assets ratio. The higher the ratio, the better is the liquidity position². Table 5.2, Table 5.3 and Table 5.4 reveal this classification on the basis of institutions, districts and products. As per Table 5.1, the ratios above 30% indicates the healthy Zone, below 15% indicates unhealthy or bankrupt zone and if it is in

between 15% and 30% it shows grey zone.

Table 5.2

Distribution of Industrial Units by Working Capital to Total Assets Ratio (Institution – wise)

Institutions	Zones							
	Bankrupt		Grey		Healthy		Total	
	No.	%	No.	%	No.	%	No.	%
KFC aided	10	31	15	47	7	22	32	100
KSIDC aided	7	58	2	17	3	25	12	100
Banks aided	9	28	10	31	13	41	32	100
Total	26	34	27	36	23	30	76	100

Source: Survey Data.

Out of the 76 units studied, 30 percentage is healthy, 36 percentage is in the grey zone and 34 percentage is bankrupt. If tried best the 36 percentage units in the grey zone can be converted into healthy zone. Thus, about 66 percentage is in the healthy zone.

Out of the KFC aided units 22 percentage, out of the KSIDC aided units 25 percentage, and out of the bank aided unit 41 percentage is in the healthy zone. In this aspect the bank aided units show a better performance.

When the nature of the products is considered and when healthy zone alone and healthy and grey zones are taken together, Electronic and electrical units show the best performance and Food products units show the worst performance with 46 percent in the bankrupt zone.

X₂ Retained Earnings to Total Assets Ratio.

This ratio is used to measure the reinvestment earning capacity of the organisation. The ratio explains the extent of net profit retained in business. A higher ratio will always be preferred because it indicates the sound investment policy of the concern. While the ratio was calculated, in the case of proprietary concerns and firms, since the value of retained earnings was not available, the difference between the capitals of the two succeeding years was taken as retained earnings. The Table 5.5, Table 5.6 and Table 5.7 indicate this classification of the units, institution- wise, district -wise and product- wise. The ratio above one percent is taken as healthy, zero or below zero as bankrupt and between zero and one percent as grey.

Table 5.5
Distribution of Industrial Concerns by Retained Earnings to Total Assets Ratio
(Institution – wise)

Institutions	Zones							
	Bankrupt		Grey		Healthy		Total	
	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage
KFC aided	3	9	0	0	29	91	32	100
KSIDC aided	0	0	1	8	11	92	12	100
Banks aided	5	16	3	9	24	75	32	100
Total	8	11	4	5	64	84	76	100

Source: Survey Data.

Out of the 76 units, 84 percent is healthy, 5 percent is in the grey zone and then 89 percent can be taken as healthy and 11 percent in the bankrupt zone. When retained earnings to total assets ratio is considered institution-wise, KSIDC units ranked first with 92 percent healthy ones and 8 percent units in the grey zone. Among the three types of units, banks aided units performed the worst. Still all the three types maintained a reasonably good performance.

Table 5.6

Distribution of Industrial Units by Retained Earnings to Total Assets Ratio
(District – wise)

District	Zones							
	Bankrupt		Grey		Healthy		Total	
	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage
Idukki	4	24	1	6	12	70	17	100
Alappuzha	1	6	1	6	15	88	17	100
Thrissur	1	5	1	5	17	90	19	100
Ernakulam	2	9	1	4	20	87	23	100
Total	8	11	4	5	64	84	76	100

Source: Survey Data

Among the districts, units in Thrissur perform the best with 90 percent and Alappuzha second with 88 percent. Units in Idukki perform the worst with 24 percent bankrupt units.

Table 5.7

Distribution of Sample Units by Retained Earnings to Total Assets Ratio

(Product – wise)

District	Zones							
	Bankrupt		Grey		Healthy		Total	
	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage
Food Products	0	0	1	8	12	92	13	100
Hosiery	0	0	1	17	5	83	6	100
Rubber & Plastic	3	20	0	0	12	80	15	100
General Engineering	2	18	2	18	7	64	11	100
Electronic & Electrical	1	20	0	0	4	80	5	100
Others	2	8	0	0	24	92	26	100
Total	8	11	4	5	64	84	76	100

Source: Survey Data

When the nature of the products is considered, food products with 92 percent and hosiery goods with 83 percent rank the first and the second while rubber and plastic goods and electronic and engineering goods rank the last with 20 percent bankrupt units.

X₃ Earnings Before Interest and Taxes (EBIT) to Total Assets Ratio

This ratio is used to measure the operating performance of the concern. It shows how far the concern has succeeded in generating and maintaining profit. It records the percentage of earnings on total assets. The higher the ratio, the greater will be the efficiency of the organisation.

Table 5.8, Table 5.9 and Table 5.10 show the distribution of the units on the basis of EBIT to Total Assets ratio, institution – wise, district-wise and product-wise. This ratio above ten percent is considered healthy, zero or below zero as bankrupt and between zero and ten percent as grey.

Table 5.8

Distribution of Sample Units by EBIT to Total Assets Ratio

(Institution – wise)

Institutions	Zones							
	Bankrupt		Grey		Healthy		Total	
	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage
KFC aided	1	3	11	34	20	63	32	100
KSIDC aided	4	33	3	25	5	42	12	100
Banks aided	3	9	13	41	16	50	32	100
Total	8	10	27	36	41	54	76	100

Source: Survey Data

When EBIT to Total Assets Ratio is calculated, it is scene that out of 76 units while 54 percent in healthy, 36 percent is in the grey zone thus 90 percent can be considered healthy if grey is also converted into healthy by hard work. Only 10 percent is in the bankrupt zone. When institution- wise analysis is made KFC aided units rank first with 63 percent healthy units and KSIDC aided units rank last with 33 percent bankrupt units.

Table 5.9
Distribution of Sample Units by EBIT to Total Assets Ratio
(District- wise)

Districts	Zones							
	Bankrupt		Grey		Healthy		Total	
	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage
Idukki	1	6	4	24	12	70	17	100
Alappuzha	1	6	10	59	6	35	17	100
Thrissur	4	21	7	37	8	42	19	100
Ernakulam	2	9	6	26	15	65	23	100
Total	8	10	27	36	41	54	76	100

Source: Survey Data

Among the districts, units from Idukki perform the best with 70 percent healthy units and units from Thrissur perform the worst with 21 percent bankrupt units.

Table 5.10
Distribution of Sample Units by EBIT to Total Assets Ratio
(Product- wise)

Districts	Zones							
	Bankrupt		Grey		Healthy		Total	
	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage
Food Products	2	15	4	31	7	54	13	100
Hosiery	1	17	2	33	3	50	6	100
Rubber & Plastic	2	13	7	47	6	40	15	100
General Engineering	0	0	5	45	6	55	11	100
Electronic & Electrical	1	20	1	20	3	60	5	100
Others	2	8	8	31	16	61	26	100
Total	8	10	27	36	41	54	76	100

Source: Survey Data

When the nature of the products is considered, electronic and electrical goods units rank the first with 60 percent and general engineering rank the

second with 55 percent healthy units. While the bankrupt units are measured, electronic and electrical goods units presented 20 percent bankrupt units while all other categories record lower percentages.

X₄ Net worth to Total Liabilities Ratio

The formula developed by Altman in this regard was market value of equity to book value of Total Liabilities. But on account of the nature of capital market and as some of the units are proprietary concerns and firms which do not issue equity, the ratio was modified as net worth to total Liabilities. This ratio explains to what extent a concern is solvent to pay off the outsiders' liability out of the capital employed by the concern. Solvency of the concern will be greater if the ratio reaches 100 percent and any figure above 100 percent is always treated as good. Table 5.11, Table 5.12 and Table 5.13 will reveal the position of the units, institution- wise, district- wise and product - wise.

Table 5.11

Distribution of Sample Units by Net worth to Total Liabilities Ratio
(Institution- wise)

Institutions	Zones							
	Bankrupt		Grey		Healthy		Total	
	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage
KFC aided	12	38	8	25	12	37	32	100
KSIDC aided	4	33	6	50	2	17	12	100
Banks aided	14	44	7	22	11	34	32	100
Total	30	39	21	28	25	33	76	100

Source: Survey Data

When Net worth to total Liabilities ratio is calculated, out of the 76 units, 33 percent is in the healthy zone, 28 percent is in the grey zone, and thus totally 61 percent can be considered healthy. 39 percent is in the bankrupt zone. When institution-wise analysis is made KFC aided units perform the best with 37 percent healthy units and bank aided units perform the worst with 44 percent bankrupt units.

Table 5.12
Distribution of Sample Units by Net worth to Total Liabilities Ratio
(District- wise)

Districts	Zones							
	Bankrupt		Grey		Healthy		Total	
	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage
Idukki	5	29	5	29	7	42	17	100
Alappuzha	8	47	4	24	5	29	17	100
Thrissur	11	58	5	26	3	16	19	100
Ernakulam	6	26	7	30	10	44	23	100
Total	30	39	21	28	25	33	76	100

Source: Survey Data.

Among the districts, Ernakulam perform the best with 44 percent healthy units followed by Idukki with 42 percent. Units from Thrissur perform the worst with 58 percent bankrupt units.

Table 5.13
Distribution of Sample Units by Net worth to Total Liabilities Ratio
(Product- wise)

Products	Zones							
	Bankrupt		Grey		Healthy		Total	
	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage
Food Products	4	31	8	61	1	8	13	100
Hosiery	4	67	0	0	2	33	6	100
Rubber & Plastic	7	47	3	20	5	33	15	100
General Engineering	4	36	2	18	5	46	11	100
Electronic & Electrical	1	20	3	40	1	20	5	100
Others	10	38	5	19	11	43	26	100
Total	30	39	21	28	25	33	76	100

Source: Survey Data

On analysis by the nature of the products, it is seen that general engineering units perform the best with 46 percent healthy units. The performance of the hosiery units is the poorest with 67 percent bankrupt units.

X₅ Sales to Total Assets Ratio

The sales generating capacity of a concern's assets is measured by this ratio. Higher the ratio better is the capacity. The ratio is calculated for all the units and they are classified (as shown in Table 5.14, 5.15 and 5.16) into zones on the basis of financial support, districts and products. This ratio above 100 percent is taken as good or healthy, below 50 percent is taken as unhealthy and the ratio between 50 percent and 100 percent is taken as grey.

Table 5.14

Distribution of Sample Units by Sales to Total Assets Ratio

(Institution- wise)

Institutions	Zones							
	Bankrupt		Grey		Healthy		Total	
	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage
KFC aided	6	19	5	16	21	65	32	100
KSIDC aided	2	17	6	50	4	33	12	100
Banks aided	1	3	9	28	22	69	32	100
Total	9	12	20	26	47	62	76	100

Source: Survey Data

Sales to total Assets ratio for the entire units when analysed, reveals the fact that 62 percent of the units fall under healthy zone, 26 percent in the grey zone, thus totally 88 percent in the healthy zone and 12 percent in the bankrupt zone.

Among the three institutions financed, bank aided units rank first with 69 percent healthy units and KFC aided units rank last with 19 percent bankrupt units.

Table 5.15

Distribution of Sample Units by Sales to Total Assets Ratio

(District- wise)

Districts	Zones							
	Bankrupt		Grey		Healthy		Total	
	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage
Idukki	3	18	3	18	11	64	17	100
Alappuzha	4	24	6	35	7	41	17	100
Thrissur	2	11	5	26	12	63	19	100
Ernakulam	0	0	6	26	17	74	23	100
Total	9	12	20	26	47	62	76	100

Source: Survey Data

Among the districts, it can be seen that units from Ernakulam perform the best with 74 percent healthy units and units from Alappuzha rank the last with 24 percent bankrupt units.

Table 5.16

Distribution of Sample Units by Sales to Total Assets Ratio

(Product- wise)

Products	Zones							
	Bankrupt		Grey		Healthy		Total	
	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage
Food Products	1	8	1	8	11	84	13	100
Hosiery	0	0	2	33	4	67	6	100
Rubber & Plastic	1	7	4	27	10	66	15	100
General Engineering	1	9	3	27	7	64	11	100
Electronic & Electrical	0	0	4	80	1	20	5	100
Others	6	23	6	23	14	54	26	100
Total	9	12	20	26	47	62	76	100

Source: Survey Data

When sales to total assets ratio is analysed group- wise, food products group ranks the first with 84 percent healthy units and general engineering group ranks the last with 9 percent bankrupt units.

Summary of Results of Accounting Ratios

The summary of the results of accounting ratios in predicting the financial health of the industrial units is given in Table 5.17, Table 5.18 and Table 5.19. As per each of the accounting ratios, each unit is grouped into Healthy, Grey, or Bankrupt Based on all the five ratios together, finally, units are categorized into any one of the three zones; by giving weights to the scores made by the units for each ratio, viz., healthy zone – 5, Grey Zone –3 and Bankrupt -1.

In consultation with experts, it was decided to classify units based on total scores obtained as follows:-

0-60% bankrupt zone

60%-80% grey zone

80% - 100% Healthy zone

Accordingly samples are divided institution- wise, district -wise and product wise.

Out of the 76 units, 42 percent fall in the healthy zone, 38percent in the grey zone thus 80 percent in the healthy zone and only 15 percent in the bankrupt zone.

When institution-wise analysis is made both bank aided units and KFC aided units produced 44% healthy units. As units in the grey zone can be made

healthy by hard work, it can be treated as healthy units and then bank aided units perform the best with (44+41) 85 percent. KSIDC perform the worst with 33 percent of bankrupt units.

Table 5.17

Distribution of Sample Units by Summary of Ratios

(Institution– wise)

Institutions	Zones							
	Bankrupt		Grey		Healthy		Total	
	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage
KFC aided	6	19	12	37	14	44	32	100
KSIDC aided	4	33	4	33	4	34	12	100
Banks aided	5	15	13	41	14	44	32	100
Total	15	20	29	38	32	42	76	100

Source: Survey Data

Table 5.18

Distribution of Sample Units by Summary of Ratios

(District– wise)

Districts	Zones							
	Bankrupt		Grey		Healthy		Total	
	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage
Idukki	3	18	4	23	10	59	17	100
Alappuzha	5	29	8	47	4	24	17	100
Thrissur	5	26	9	48	5	26	19	100
Ernakulam	2	9	8	35	13	56	23	100
Total	15	20	29	38	32	42	76	100

Source: Survey Data

Table 5.18 throws light on the district wise analysis of the data. Idukki district produce more of healthy units (59 percent) that the other 3 districts. When units in grey zone are treated as healthy units Idukki ranks second with (59+23) 82 percent first to Ernakulam with (56+35) 91 percent Alappuzha scores the last with 29 percent of bankrupt units.

Table 5.19
Distribution of Sample Units by Summary of Ratios
(Product- wise)

Products	Zones							
	Bankrupt		Grey		Healthy		Total	
	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage
Food Products	2	15	4	31	7	54	13	100
Hosiery	1	17	3	50	2	33	6	100
Rubber & Plastic	3	20	6	40	6	40	15	100
General Engineering	1	9	7	64	3	27	11	100
Electronic & Electrical	1	20	1	20	3	60	5	100
Others	7	27	8	31	11	42	26	100
Total	15	20	29	38	32	42	76	100

Source: Survey Data

When the data is analysed product wise, electrical and electronic group scores first with 60 percent of healthy units: When grey and healthy units are counted together general engineering group ranks first with (27+64) 91 percent of healthy units. It is astonishing to see that electrical and electronic group produces the maximum proportion of bankrupt units (20%) which is because the number of sample units under this category is small. Rubber and plastic group also produced 20 percent of bankrupt units.

Thus, the above analysis makes clear that units financed by banks performed better than the units assisted by KFC and KSIDC. Among the districts Idukki performs the best and the units from Alappuzha record the worst. Among the different products, general engineering group ranks the first.

The above drawn conclusions were statistically tested using Altman's 'Z'-score test

2 Altman's 'Z'-Score Test

Prof. Altman³ has developed an empirical model based on the Multiple Discriminant Analysis for predicting the failure or sickness of an industrial undertaking. Hence several ratios that are significant to influence the measurement of health are calculated first and a single composite index, viz., 'Z'-score test which takes into account the weighted influence of different ratios has been developed for measuring the health of the company. Altman's formal model was given by:

$$Z = 1.2X_1 + 1.4 X_2 + 3.3 X_3 + 0.6 X_4 + 1.05 X_5$$

Where $X_1 = \text{Working capital} / \text{Total assets}$

$X_2 = \text{Retained Earnings (loss)} / \text{Total assets}$

$X_3 = \text{Earnings before interest and taxes} / \text{Total assets}$

$X_4 = \text{Market value of Equity} / \text{Book value of total liabilities}$

$X_5 = \text{Sales} / \text{Total Assets}$

$Z = \text{Overall Index}$

Values of 'Z'-score above 2.99 are considered safe while firms with a 'Z' below 1.81 fall in the bankrupt zone, the range between the two values is considered a grey area.

If a single best critical value for differentiating failing and non-failing firm is required Altman recommends 2.672⁴.

Even though Prof. Altman has developed this model for predicting industrial sickness, it can also be used for measuring the health of a company. The ICICI commonly uses this test for measuring the health of its borrowing companies.

While calculating the accounting ratios the researcher has made slight modifications in X_2 and X_4 as mentioned earlier. Average 'Z'-score is calculated from the average value of accounting ratios and conclusions are drawn relating to the financial health of the borrower concerns.

The average 'Z'-score is analysed institution wise, district-wise and product-wise.

Table 5.20
Distribution of Sample Units by Average 'Z'-Score
(Institution – wise)

Institutions	Zones								Average 'Z'- score
	Bankrupt		Grey		Healthy		Total		
	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage	
KFC aided	7	22	10	31	15	47	32	100	3.01
KSIDC aided	6	50	3	25	3	25	12	100	2.13
Banks aided	5	16	8	25	19	59	32	100	3.86
Total	18	23	21	28	37	49	76	100	3.23

Source: Survey Data.

The average 'Z'-score for the entire sample is found as 3.23. Out of the total sample of 76 units, 23 percent fall in bankrupt zone, 28 percent in grey zone and 49 per cent in healthy zone. Among the three categories of institutions KFC aided units have an average 'Z'-score of 3.01, KSIDC aided units have an average of 2.13 and banks aided units have an average of 3.86. Thus bank aided units show the best performance. If worked hard the units in the grey zone can be taken to the healthy zone and thus among the three categories again banks aided units perform the best with (59+25) 84 percent in the healthy zone. KSIDC aided units perform the worst with 50 percent of bankrupt units.

Table 5.21
Distribution of Sample Units by Average 'Z' Score
(District- wise)

Districts	Zones								Average 'Z'- Score
	Bankrupt		Grey		Healthy		Total		
	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage	
Idukki	3	17	3	18	11	65	17	100	3.72
Alappuzha	6	35	6	35	5	30	17	100	2.63
Thrissur	5	26	6	32	8	42	19	100	3.41
Ernakulam	4	17	6	26	13	57	23	100	3.12
Total	18	23	21	28	37	49	76	100	3.23

Source: Survey Data.

When the data are analysed district – wise, the average 'X'-score is the highest for Idukki with 3.72 followed by units of Thrissur with 3.41. Units from Alappuzha have the lowest average 'Z'-score of 2.63. When the proportion of units in the healthy zone is considered, units from Idukki show

the best performance with 65 percent. When the performance in the healthy zone and grey zone is counted together, Idukki and Ernakulam record the highest with 83 percent. Alappuzha records the worst performance with 35 percent of bankrupt units. Table 5.22 reveals the classification of industrial units product – wise

Table 5.22
Distribution of Sample Units by Average ‘Z’ Score
(Product– wise)

Products	Zones								Average ‘Z’ Score
	Bankrupt		Grey		Healthy		Total		
	Number	%	Number	%	Number	%	Number	%	
Food Products	2	15	3	23	8	62	13	100	2.89
Hosiery	2	33	2	33	2	34	6	100	3.05
Rubber & Plastic	4	26	4	27	7	47	15	100	2.68
General Engineering	1	9	4	36	6	55	11	100	4.49
Electronic & Electrical	1	20	3	60	1	20	5	100	2.68
Others	8	31	5	19	13	50	26	100	3.32
Total	18	23	21	28	37	49	76	100	3.23

Source: Survey Data

When the data is analysed according to the nature of the products, general engineering stands first with 4.49 of average ‘Z’-score. When the proportion of healthy units alone is considered food products group ranks first. But as the units in the grey zone can be taken to healthy zone by hard work, the achievement of the units in these two groups can be taken together. Then

general engineering group shows the best performance with 91 percentage. Hosiery group records the worst performance with 33 percent bankrupt units.

Thus average 'Z'-score test reveals the fact that there is significant difference in the working of the sample units selected when analysed institution wise, district wise and product wise. Banks aided units perform better than KFC aided and KSIDC aided units. Among the districts, units from Idukki record a better performance than units from other districts. Product-wise analysis discloses the fact that general engineering group performs better than the other units selected.

Comparative Study of Accounting Ratio Analysis and 'Z'-Score Test

The findings of 'Z'-score test regarding the aided units were identical with that of the results of the financial ratio analysis.

When inter-institutional analysis is made, both Accounting Ratio Analysis and 'Z'-score test disclose that all the three agencies have a positive role in industrialisation. Hence the hypothesis H_2 has been accepted.

Among the three categories, banks aided units performed the best and KSIDC financed units the worst. Therefore out of the sub-hypotheses formulated, H_{2a} and H_{2b} , viz., KFC aided units perform better than banks aided units and KSIDC aided units perform better than banks aided units have been rejected Hypothesis H_{2c} viz., KFC aided units perform better than KSIDC aided units has been accepted.

When the proportion of healthy units alone is taken both the tools conclude that units from Idukki performed better than any other district. When

healthy and grey zones are taken together, Accounting Ratio Analysis bring out that units from Ernakulam stand first and that of Idukki second. Z-score test reveals that both Ernakulam and Idukki score the same first place. Both the tools find that Alappuzha ranks the last. Hence the sub- hypothesis H_{2d} , viz., there is no significant difference in the performance of the selected units, district-wise has been rejected.

On inter-product analysis, Financial Accounting Ratio Analysis finds that, electronic and electrical group produces more healthy units, but when healthy and grey zones are taken together general engineering group produces more healthy units. 'Z'-score test also approves the fact that general engineering group ranks first when the two zones are taken together. But difference of opinion is found with regard to the worse performance. While Ratio analysis concludes that rubber & plastic performs the worst, 'Z'-score test concludes that hosiery group performs worst. Therefore the sub-hypothesis H_{2e} , viz., there is no significant difference in the performance of the selected units, product-wise has been rejected.

In general, the findings of both the tools were identical. There is significant variation in the performance of the industrial units based on the institution financed, district where they function and the products which they manufacture. However, all the industrial units face several problems while they perform their day-to-day production. In the next chapter an attempt is made to bring these problems into light.

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ROLE OF FINANCIAL INSTITUTIONS IN THE INDUSTRIALISATION OF KERALA

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By

JANCY DAVY

Under the supervision of

PROF. (DR.) K. C. VIJAYAKUMAR

Department of Commerce and Management Studies

UNIVERSITY OF CALICUT

P. O. CALICUT UNIVERSITY

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CHAPTER VI

PROBLEMS OF KERALA INDUSTRIES

In the previous two chapters attempts were made to find out the role of financial institutions by analysing the structure, working and performance of the units aided by them. This analysis helped the scholar to realise some of the important problems faced by these units. In this chapter an attempt is made to list out these problems on the belief that the concerned authorities would take the required steps to solve these problems in time.

As seen in the fourth chapter all the units under survey have problems related to finance. Eighty five percent of the entrepreneurs felt that the rate of interest charged by the financial institutions is exorbitantly high. The time taken by these institutions to scrutinise the application forms and sanction the loans is very long. The financial institutions refrain from sanctioning the full amount of loans applied for. The gestation period allowed by the KFC seems to be very short in many cases. Only 75 percent of the entrepreneurs get twenty percent of their working capital requirement as loan. Fifty percent of the total units have to bear average collection period of more than two weeks seems to be on the higher side under the present context. Thirty three percent of the entrepreneurs find the procedure of getting loans complicated and lengthy. Nine percent of the entrepreneurs are not satisfied with the co-operation of the staff members of these financial institutions

All the three financial institutions have reduced the interest rates Still it has not come down to the international level. So if the products of Kerala industries are to compete with other products, interest rate should be further reduced. The financial institutions should have a personal contact with each entrepreneur. Many of the problems listed by the entrepreneurs can be solved if these financial institutions are more customer friendly.

Besides the problems related to finance, there are many other problems faced by the Kerala industrial sector which are divided into seven major heads followed by a miscellaneous group. Table 6.1 reveals the important problems given out by the selected industrial units.

Table 6.1

Major Problems of Industrial Units of Kerala

No.	Problems	Significance in percentage	Rank
1	Marketing problems	46.17	1
2	Power problem	23.56	2
3	Labour problems	9.04	3
4	Non-availability of raw material	8.04	4
5	Lack of government support	7.55	5
6	Transportation problem	3.15	6
7	Miscellaneous	2.49	7
	Total	100	

Source: Survey Data.

Besides the financial problems, the most important problem seems to be that of lack of demand included in marketing problem. Due to globalisation many new brands of products were introduced into the market.

The existing entrepreneurs find it difficult to generate profit due to the extra expenditure for advertisement, or due to the reduction in price they offer to face the cut throat competition. Some of them find it difficult even to survive. Marketing problem includes the problem of delayed bills too. Since many of the products are available in the market in various brands the bargaining power of the entrepreneurs is weak. Realising this, the suppliers exploit this weakness by delaying the payment of bills. Out of the selected entrepreneurs, 46 percent admitted that they have marketing problems.

The marketing problem as a whole can be solved only by improving the quality of the product. Now-a-days price is not the only factor to create demand. Consumers' mind is influenced a lot by the quality of the product as well as the brand name which depends again on quality. If the products are able to impress the consumer, it is certain that the problem of delayed bills would also be solved. The product should be made known to the consumers either by conducting exhibitions, fairs etc. within Kerala as well as outside Kerala. The entrepreneurs should avail of the opportunities given by several agencies to participate in the exhibitions. Demand can be created on the adoption of door-to-door delivery system. When the salesmen approach the consumers at their homes, they are more inclined to purchase the product. If the salesmen increase the number of visits to an area and if the quality also is good, definitely the consumer starts waiting for the salesman.

Among the selected units, 23.56 percent of the units reported that they have the power problem. Entrepreneurs demand continuous supply of power to operate their machines efficiently. When the machines are stopped in between

the processes, not only the production is hampered, but also the quality of the product is affected. The entrepreneurs are not satisfied with the cost of power which is high when compared to the neighbouring states.

Nine percent of the respondents face with labour problems. Labourers are available but the problem is with the wages. As the labourers of Kerala demand more wages, many entrepreneurs make use of the labour from neighbouring states which is cheap.

Non availability of raw materials in time was reported as one of the problems by 8 percent of the selected units.

The next important problem faced by the industrial units is the lack of government support and harassment by the government departments. The government is slowly withdrawing the benefits given to the industrial units. Instead of acting as promoters of industrialisation many of the government departments especially electricity department is creating headache to the industrial units. In many occasions the entrepreneurs are discouraged due to the non-co-operation of the government departments.

Only three percent of the entrepreneurs reports that transportation is a problem for them which indicates that Kerala has to develop its infrastructure.

The miscellaneous group includes problems like lack of industrial culture, mismanagement, use of obsolete machineries etc. The attitude of the entire society should be shifted towards industrialisation. The entrepreneurs have a feeling that people do not give due importance to them as they give to other professionals. Lack of industrial culture in the society creates many

difficulties to the entrepreneurs. Use of obsolete machinery becomes a problem to them because it increases cost of production.

Conclusion

It is hoped that the industrial sector of Kerala can come forward and contribute more to the GDP of the country. The problems of these units listed above can be solved if the entrepreneurs, financial institutions, government and the society co-operate and move together which is discussed in the next chapter which leads to low profitability and inefficiency. Modernisation requires huge expenditure and moreover it results in retrenchment of labourers which is undesirable to the society. A few of the entrepreneurs are worried about the corruption and mismanagement of the top officials.

It may be because of these problems that the contribution of the manufacturing sector has been low in 2000-01. The following Table 6.2 will reveal this.

Table 6.2
Growth of Manufacturing Sector (NSDP) (Rs. lakhs)
(Base Year 1993-94)

Year	At Constant Prices		At Current Prices	
	Actual	% change over the previous year	Actual	% change over the previous year
1998-99	350458	-	558175	-
1999-00	369687	5.49	612334	9.70
2000-01	353129	-4.48	603075	-1.51

Source : Department of Economics & Statistics, Thiruvananthapuram

Table 6.2 reveals the fact that the growth in NSDP at constant prices and current prices is negative during the year 2000-01.

Third All India Census of Small Scale Industries 2001-02 has identified lack of demand and shortage of working capital as the main reasons for the incipient sickness in both the registered and unregistered small scale industry sectors.¹ The percent study also identified the same two problems as the most important problems of the Kerala industries. The states of Kerala, Karnataka, Chhattisgarh, Maharashtra and Tamil Nadu have the maximum share of sick units in the registered SSI sector. Kerala accounts for 8.41 percent of the closed small scale units of India during the year 2001-02.²

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1. Government of India, Ministry of Small Scale Industries, *Quick Results – Third All India Census of Small Scale Industries 2001-02*, New Delhi, 2003, p.9.
2. Ibid., p.34.

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JANCY DAVY

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PROF. (DR.) K. C. VIJAYAKUMAR

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CHAPTER VII

SUMMARY, FINDINGS, CONCLUSIONS AND SUGGESTIONS

The economic prosperity of a country to a large extent depends on the rate of industrialisation. The people of Kerala look upon the rapid industrialisation of Kerala as a lasting solution to the problem of unemployment which paves the way for much of the social unrest. But the position of Kerala in the industrial map of India is almost insignificant. The ranking of different states based on the outcome of the study of Confederation of Indian Industry (CII) on industrial attractiveness done in 2002 has brought out Kerala and Maharashtra as the top scorers with A grade and with a score of 2.8. Still the investment made in the industrial sector of Kerala is less. The central sector investment to Kerala industries had been nominal. Both in absolute and relative term the financial assistance given by AIFIs to Kerala industries has been very low. Therefore financial institutions have to play a greater role in the industrialisation of Kerala. In this study, the role of these financial institutions KFC, KSIDC and banks is studied. The following objectives were setup.

1. To study the growth of advances year-wise and institution-wise over a period of years.
2. To study the performance of units assisted by KFC, KSIDC and commercial banks.

3. To assess the role of these institutions based on these performances.
4. To assess the inter-institutional, inter-district, inter-product variations in industrial finance.
5. To study the major problems faced by the industrial units of Kerala.
6. To make suitable suggestions and recommendations on the basis of the findings of the study.

On the basis of the above objectives the following hypotheses have been formulated and tested

H₁: Financial institutions to be effective should be more customer friendly.

H₂: Judged by the performance of units aided the state sponsored agencies have a positive role in the industrialisation of Kerala.

Various sub-hypotheses have been formulated which are as follows:

- a) KFC aided units perform better than banks aided units
- b) KSIDC aided units perform better than banks aided units
- c) KFC aided units perform better than KSIDC aided units
- d) There is no significant difference in the performance of the selected units district-wise
- e) There is no significant difference in the performance of the selected units product-wise.

The study has been designed as an empirical one based on survey method. Data have been collected from both secondary and primary sources.

Multi-stage stratified sampling was adopted. Samples were taken from 4 districts and the study was conducted.

Summary of Findings

The major policy changes initiated in the industrial sector since July 1991, has forced the industries of India to incur more on indirect expenses, may be to face the cut-throat competition due to liberalisation. During the nineties the range and quality of manufactured products, improved. Items that were hitherto considered luxury became common. The standard of living of the Indian population rose during nineties.

Over the period from 1992-2001, the IIP of Kerala industries rose from 216.21 to 360.20 which records a growth rate of 66.6 percent over ten years. During the year 2001-02 it has come down to 302.29 over the period from 1992-2002, the number of industries increased by 205 percent, investment by 260 percent and employment by 120 percent. The employment opportunities created by the industrial sector of Kerala is not increasing significantly. The industrial atmosphere and the industrial relations in the State have improved which is evidenced by reduced number of disputes handled, reduced number of strikes and lock-outs, reduced number of workers affected reduced number of man-days lost over the years from 1992 to 2002. The poor performance of the public sector industries affected the growth of industrial sector in general in the State.

Kerala industries had been enjoying around 3 percent of central government's investment in the seventies and in nineties it was less than two percent. From 2001 onwards central sector investment is more than 2 percent.

Most of the industrial units of Kerala avail of the financial assistance from commercial banks, KFC or KSIDC.

The Proportion of rural branches is decreasing and that of semi-urban, urban and metropolitan are increasing. This is due to the fact that more rural areas are urbanised and more new branches are started in semi-urban and urban areas. With regard to Kerala, C-D Ratio, I-D Ratio and C+I-D Ratio of 1992 to 2002 are less than the national average. The C-D ratio in Kerala had always been above 60 percent level till as late as 1990-91 when it marginally dropped to 59 percent. Afterwards it never came above 60 percent. The commercial banks of Kerala has achieved only 73 percentage of credit and 93 percentage of deposits thus leading to a C-D Ratio of 43.06 percentage which is only 78 percentage of the C-D Ratio estimated by the Avari Committee for 1998-99. Similarly the commercial banks of Kerala were able to achieve only 71 percent (42.77%) of the estimated C-D Ratio of 60 percent for the year 2000-01. The latest data available pertaining to September 2003 reveals that C-D Ratio in the State increased by 2.7% over six months which indicates a pick-up in credit disbursement following a revival in the State economy.

The percentage NPAs to total advances is coming down year after year. The Non-Resident External (NRE) deposits of Kerala form nearly 50 percent of the total deposits. The latest data available indicates that both NRE deposits and domestic deposits are increasing very slowly at 1.1 percent and 4.6 percent for the half year ending September 2003. Such a decline may lead to problems in the working of commercial banks.

On the basis of loans sanctioned KFC ranks 7th among the SFCs. KFC is one among the 3 SFCs which were able to meet the 9 percent stipulated Capital Adequacy Ratio out of the 18 SFCs. KFC's losses is increasing, but it has reduced its loss in 2002-03. The NPA of KFC is increasing absolutely and relatively. It has reached 64.37 percent of the loans.

KSIDC took the lead in conducting Global Investor Meet (GIM). While KFC disburses on an average. 79.77 percent of the loan amount sanctioned, KSIDC disburses 63 percent of the sanctioned amount. The NPA has reached 66 percent of the loans in 2002-03. KSIDC is making profit and during 2002-'03 the growth in net profit is 40 percent.

The study reveals the fact that KSIDC finance more of companies while KFC and banks finance more number of proprietary concerns and firms. Out of the 76 loanees selected 45 percent were proprietary concerns, 21 percent were firms and 33 percent were companies. It is found out that while KFC and banks are ready to finance new as well as acquired units, KSIDC finance mainly new enterprises. All the entrepreneurs or the top officials of the selected enterprises were technically trained or experienced in business either as an employee or as an owner. Among the entrepreneurs selected, more of technically qualified persons are found among the entrepreneurs of Thrissur and Ernakulam district. The most important motivational factor for starting the units is found to be individual determination and motives. While sanctioning loans all the three financial institutions give almost equal importance to three factors viz, entrepreneurship, project report and collateral security. Eighty five percent of the sample units have an opinion that the

interest rate is very high or high. Seventy five percent of the entrepreneurs obtained the full amount of loan for which they had applied. KFC takes lesser time than KSIDC and commercial banks to sanction the loans. KSIDC charges lesser processing charge than banks and KFC. All the KSIDC units under study enjoyed a gestation period more than six months. More units of Ernakulam enjoyed a gestation period more than six months compared to other districts viz., Thrissur, Alappuzha and Idukki. Most of the loanees were satisfied with the gestation period. The average increase in cost due to cost overruns is the lowest in the case of KFC aided units and the highest in KSIDC aided units. Seventy four percent of the units had a schedule of monthly repayment of loans.

Conclusions

Out of the seven hypotheses formulated and tested three were accepted and four were rejected and the following conclusions were made.

1. The financial institutions should be more customer-friendly to play an effective role.
2. The state sponsored agencies have a positive role in the industrialisation of Kerala.
3. Among the three financial institutions banks aided units stand first, KFC aided units stand second and KSIDC aided units stand third.

4. There is significant difference in the performance of units district-wise. The units of Ernakulam district perform the best and those of Alappuzha district perform the worst.
5. There is significant difference in the performance of units product-wise. The units of general engineering group rank first rubber and plastic group and hosiery group rank the worst.

Suggestions

On the basis of the study suggestions are made to the financial institutions, government, entrepreneurs and to the public.

Financial Institutions

If the projects are proved to be viable and feasible all the financial institution are ready to finance the full amount of loan. Inform the loanees about the potential entrepreneurial areas in Kerala viz., IT, Biotechnology, agro-processing industries and tourism industry. Evolve new schemes which would enable them to support investors in these sectors.

Eighty five percent of the respondents have a complaint that interest rate is high. The rate of interest during 1996-97 was really high. All the financial institutions have reduced the interest rates. Still it has not come down to the international level. So, if the products of Kerala industries are to compete with other products, interest rate should be further reduced.

On an average, all the financial institutions take more than 3 months to sanction a loan. If properly attempted this time can be reduced.

A conducive credit culture can be achieved in letter and spirit only if a fool-proof arrangement is made to monitor the credit delivery system among the FIs. Loan monitoring should be done more efficiently as NPA norms have been made stricter. FIs should initiate steps on detecting even one-month default.

As the commercial banks are having a good network of branches it is easy for them to have a personal contact with each entrepreneur in their specified area. Therefore the banks should evolve new schemes suiting the customer. If the staff and customers in all branches work as a joint venture for local prosperity, bankers will no longer be labelled as deposit mobilisers only and development will acquire a new meaning and significance in the growth of national economy. It is suggested that bank managers should be given proper information about industries.

Banks are flush with loanable funds and should not hesitate in expanding advances out of volatile Non-Resident Indian (NRI) deposits. Banks will have to be more outgoing in search of new clients and new avenues for lending.

Banks should reduce the period taken for the collection of cheques. Network banking would be very helpful in reducing the time for collection of cheques.

KSIDC is suggested to take more care in project evaluation as some of its projects have failed due to the inefficiency in the evaluation of project report.

KFC can become more customer-friendly by simplifying the complicated procedure. It is welcoming on the part of KFC to give a list beforehand of requirements to be furnished at the time of submission of the proposal.

Government

In order to solve the problem of power supply two suggestions can be made to the Government. Firstly, the 14 places identified by Agency for Non-Conventional Energy and Rural Technology (ANERT) and Ministry of Non-Conventional Energy Sources (MNES) for the generation of wind energy should be developed by the State Government on its own. Eventhough wind energy is seasonal and it can not be substituted for hydel power, it can be utilised in such a way that the pressure on hydel power can be reduced in the peak demand period. Secondly, the State has an abundant supply of biomass which can also be used for the generation of power. The use of biomass for power generation has several other advantages, viz., reduction of emission, diversity and employment generation.

To attain the targeted growth rate of Xth plan, the investment required is estimated at Rs. 1,53,760 crore. The Government contribution towards this could be only of Rs. 42,278 crores. So there should be a private investment of Rs. 1,11,482 crores. Therefore, the Government should take measures to attract the private investors. CII has ranked Kerala first with 'A' grade in the case of industrial attractiveness. That fact itself can be taken as a tool to attract private investors. The Government should see that foreign investors who come to India are influenced and brought to Kerala.

One of the difficulties faced by the entrepreneurs was found in the study as lack of government support and the harassment from the part of Government departments. The policies of changing governments should not affect the industries adversely. When the Governments change some of the benefits given to the industries are discontinued and some other benefits are implemented. But the difficulty is only to the individual units. The Government should see that the promises given to the industrial units are kept. Again, many of the entrepreneurs have complaints about one or the other of the Government departments. The Government should be able to create a feeling among the entrepreneurs that they are for the industrialists. Harassment should be replaced by whole-hearted co-operation. Things should be made more smooth by implementing effectively the single window scheme.

To change the risk-averse mindset of Keralites awareness of the possibilities of industrial growth should be created right from the school level. It may be because of this that many vocational schools and engineering courses are sanctioned in the State by the Government.

Increasing NPA is found to be an important problem of the three financial institutions. The government should take strict measures so that these financial institutions would be able to collect the NPAs soon. Merely passing of Securitization Act is not sufficient, speedy acquisition and disposal of assets should be made possible without any further intervention of the court.

Entrepreneurs

For Kerala industries to survive and prosper amidst rapid globalisation of the economy, it must limit the extent of help sought from the Government and learn to initiate a self-help and self regulation approach. The entrepreneurs mission should be zero-defect units. Industry associations must restructure themselves to play an active role in transmitting this change.

India is now an open economy. An Indian product has to compete with the best in the world even for a share in the domestic market. In the study, lack of demand was found to be an important problem. To get a share of the consumers mind, price alone is not a differentiator. The entrepreneur should see that the quality of the product is upgraded. The units need to acquire a good image apart from building strong brands. The industrial units should keep faith by their creditors, suppliers, employees and customers.

Financial institutions alone should not be blamed for not granting advances because, sometimes, due to non-payment of loan instalments in time, they may come to the wrong notion that a particular group of enterprises are not viable. Therefore the researcher has to suggest the entrepreneurs to service the debt as agreed by them and the financial institution.

The entrepreneurs should see that the funds are used for the purposes for which it is granted.

Public

Finally, the public is suggested to co-operate with the financial institutions by being aware of the new schemes and technology adopted by

them so that their services can be made use of at their necessity. The public should also understand that Kerala state can develop only through industrialisation and therefore should co-operate with the industrial concerns.

In Kerala, a lot of investment is necessary for stepping up the industrialisation. Direct investment by government is less likely to come and experience suggests that private initiative using own capital is not showing any favourable trend. Thus the role of financial institutions becomes vital. The study focused on the major financial institutions and their role in industrial development. In general, the performance is satisfactory, but much more is expected from these institutions. The conclusions derived and the suggestions made, it is hoped, will be of use for policy decisions in future.

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UNIVERSITY OF CALICUT

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ROLE OF FINANCIAL INSTITUTIONS IN THE INDUSTRIALISATION OF KERALA

*Thesis submitted to the University of Calicut
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By

JANCY DAVY

Under the supervision of

PROF. (DR.) K. C. VIJAYAKUMAR

Department of Commerce and Management Studies

UNIVERSITY OF CALICUT

P. O. CALICUT UNIVERSITY

MALAPPURAM - KERALA

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22/9

APPENDIX

INTERVIEW SCHEDULE FOR THE INDUSTRIAL UNITS

I. Unit Profile

1. Name and address of the Unit

District Phone:

2. Type of Organisation

- 1. Sole Proprietorship
- 2. Partnership
- 3. Joint Stock Company
 - a) Private
 - b) Public
- 4. Co-operative Society

3. Year of starting the Unit Acquired New

4. Nature of the product

- | | |
|-----------------------------------------------|--------------------------------------------------------------|
| 1. Food Products <input type="checkbox"/> | 4. General Engineering <input type="checkbox"/> |
| 2. Hosiery Garments <input type="checkbox"/> | 5. Electronic & Electrical Products <input type="checkbox"/> |
| 3. Rubber & Plastics <input type="checkbox"/> | 6. Others |

5. Brand Name of the product, if any

6. Name of the owner/managing partner/managing director/secretary

7. Educational Background of the owner :

Non-Technical

Technical

- | | |
|------------------------------------|-------------------------------------------|
| 1. PG <input type="checkbox"/> | 1. PG <input type="checkbox"/> |
| 2. Degree <input type="checkbox"/> | 2. Degree <input type="checkbox"/> |
| 3. PDC <input type="checkbox"/> | 3. Diploma <input type="checkbox"/> |
| 4. SSLC <input type="checkbox"/> | 4. Others <input type="checkbox"/> |

8. Training /Experience in running the business

- 1. Technical training
- 2. Business Experience
- 3. Other Experience

9. Business background of owner

- 1. For the first time in business
- 2. Belongs to a business family

- a. Family doing same business
- b. Family doing other business
- 3. Was an employee of another concern

10. Motivation for starting the unit
(Please give 5 points for the most relevant factor, 4 to the next and so on)

- 1. Government incentive
- 2. Own initiative
- 3. Warm circle encouragement
- 4. Profit or income
- 5. Others (.....)

II Loans

a) Term Loans

11. Please state the basis on which the loan was sanctioned (Give your preference as in Question 10)

- 1. Entrepreneurship & capacity
- 2. Project Report and viability of the project
- 3. Collateral Security
- 4. Others (.....)

12. Number of term loans taken during the period 1996-2001 and their purpose

No.	Purpose (Financing, Building plant, machinery, other assets)	SOURCE (KFC, KSIDC Commercial Banks others)	YEAR (From 1996-2001)	AMOUNT	RATE OF INTEREST (in %)	SECURITY

13. What is your opinion about the interest rate?

- | | |
|--------------|--------------------------|
| 1. Very High | <input type="checkbox"/> |
| 2. High | <input type="checkbox"/> |
| 3. Moderate | <input type="checkbox"/> |
| 4. Low | <input type="checkbox"/> |

14. Is there a gap between loans requested and sanctioned? Yes/No

15. If yes, how did you manage to finance the gap:

16. Time taken to get the loan sanctioned from the date of application

17. Total amount spent for getting the loan

- | | |
|---------------------------------|---------|
| 1. Amount for documents | Rs..... |
| 2. Service charge of the Agency | Rs..... |
| 3. Others (.....) | Rs..... |

18. In how many instalments was the loan amount released.

No. of Instalments	One	Two	Three	Four & Above
Loan No				

19. What is the gestation period of the loan

Loan No.	Gestation Period			
	Below 3 months	4-6 months	6-12 months	Above one year
1.				
2.				
3.				
4.				
5.				

20. Is the gestation period reasonable? Yes/No
21. How much increase in cost was incurred due to cost overruns (in percentage, on estimated cost)
22. How was the increase in cost financed?
23. What was the repayment schedule of the loan

Loan No.	Repayment			
	Monthly	Quarterly	Half Yearly	Annually

24. Is there a delay in the repayment of the loan? Yes/No
25. If yes, state the reason (Give your preferences as in Question No. 10)

- 1. Low turnover
- 2. Low profits
- 3. Diversion of funds for other business purpose
- 4. Funds used for private purpose
- 5. Delay in production
- 6. Tight repayment schedule
- 7. Others (.....)

26. Utilisation of the loan
- 1. Financing fixed assets
 - 2. Financing sister units
 - 3. Meeting current expenses
 - 4. Used for private purpose
 - 5. Others (.....)

27. Assets and Liabilities

Assets	1996-97	1997-98	1998-99	1999-2000	2000-01
1. Fixed Assets 2. Investment 3. Current Assets, Loans and Advances A a. Inventories b. Sundry Debtors c. Cash and Bank B. Loans and Advances 4. Miscellaneous Expenditure Liabilities 1. Shareholders Fund a. Capital b. Reserves and surplus 2. Loan Fund a. Secured b. Unsecured 3. Current Liabilities and Provisions a. Creditors for materials b. Others					

b. Working Capital Loan

28. Details of Loans

Year	SOURCE KFC, KSIDC, COMMERCIAL BANKS, Others	AMOUNT (in Rs.)	RATE OF INTEREST	SECURITY
1996-97				
1997-98				
1998-99				
1999-2000				
2000-01				

29. Basis on which the loan was sanctioned (Give points similar to Questions No. 10)

1. Entrepreneurship
2. Project Report and viability of the project
3. Collateral security
4. Others (.....)

30. Are you getting 20% of turnover as working capital loans as per Nayak Committee Report?
Yes / No

31. If No, what percentage of turnover is received as loan?

1. Below 5% 2. 6%-10% 3. 11%-15% 4. 16%-20% 5. Above 20%

32. How was the loan utilised?

- 1. For raw materials
- 2. For fixed assets
- 3. For current expenses
- 4. For private expenses

33. Is there a practice of discounting cheques? Yes/No

34. Average collection period of the cheques / drafts

a. Local cheque

1. Below 1 week 2. Between 1-2 weeks 3. Above 2 weeks

b. Outstation cheque

1. Below 1 week 2. Between 1-2 weeks 3. Above 2 weeks

35. What is the length of working capital cycle.

1. Below 1 month 2. 1-3 months 3. 4-6 months
4. 7-12 months 5. Above 1 year

c. General

36. Did you experience and difficulty in getting the loan Yes/No

37. If yes, please state the nature of difficulty (Give your preference as in Question No.10)

- 1. Too many documents
- 2. Complicated procedure
- 3. inconsistent behaviour of the officials
- 4. Delay in clearance of documents
- 5. Problems of furnishing security
- 6. Others (.....)

38. What is your opinion about the co-operation of the officials of the Agency

1. Quite satisfied 2. Some what satisfied 3. Not satisfied

39. Have you received any loan from private money lenders. Yes/No

40. If the answer is YES, do you have the habit of taking loan even now? Yes/No

41. If the answer is NO, please specify why did stop taking loan.

- 1. High interest
- 2. Great Exploitation
- 3. Not Needed
- 4. Others (.....)

42. If the answer to Qn. No. 40 is YES, please specify the main reason for continuing the dealings with the money leaders.

- 1. No delay
- 2. No surety
- 3. Good behaviour
- 4. Very near
- 5. No procedure
- 6. No other alternative
- 7. Others

43. Do the loan monitoring agencies monitor the deployment of money given as loans. Yes/No

44. If yes, what procedure is adopted by the agencies for monitoring loans

- 1. Monthly report
- 2. Visiting the units
- 3. Cash flow statement
- 4. Technical advice
- 5. Others

45. Have you received any assistance from Government? Yes/No

46. If Yes, state the nature and amount of assistance

Nature	Year (1996-2001)	Amount

WORKING CAPITAL

47. System of wage payment for the workers

1. Monthly

2. Weekly

3. Daily

	Particulars	1996-97	1997-98	1998-99	1999-2000	2000-01
48	No. of employees 1. Workers M (Male) F (Female) 2. Supervisory M (Male) F (Female) 3. Office M (Male) F (Female) 4. Casual M (Male) F (Female)					
49.	Number of days worked					
50.	Capacity utilisation (%)					
51.	Number of units produced					
52.	Income sale of products other income					
	Less Direct cost Ovehead					
	Operating profit					
	Less 1. Interest 2. Depreciation					
	Net profit before tax Less income tax					
53.	Net profit after tax					
54.	Particulars	1996-97	1997-98	1998-99	1999-2000	2000-01
	Purchases					

III. Suggestions / Comments

55. What are the major problems faced by the unit (Give points similar to Qn. No. 10)

- 1. Non availability of raw materials
- 2. Power Supply Problem
- 3. Labour Problem
- 4. Transportation Problem
- 5. Marketing Problem
- 6. Delayed payment of Bills
- 7. Others

56. Suggestions for improving the present system of finance

- 1.
- 2.
- 3.
- 4.

