

**ROLE OF STATE-LEVEL DEVELOPMENT FINANCIAL INSTITUTIONS
IN THE INDUSTRIAL DEVELOPMENT OF KERALA WITH SPECIAL
REFERENCE TO THE KERALA FINANCIAL CORPORATION (KFC)**

**THESIS SUBMITTED TO THE UNIVERSITY OF CALICUT
FOR THE DEGREE OF DOCTOR OF PHILOSOPHY
IN COMMERCE**

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2009

DECLARATION

I, N. K. BABU, do hereby declare that the thesis entitled '**Role of State-level development financial institutions in the industrial development of Kerala with special reference to the Kerala Financial Corporation (KFC)**' is a bonafide record of research work done by me under the supervision of Dr V. K. Janardhanan, Professor and Head, Department of Commerce & Management Studies, University of Calicut. I, further declare that it has not been submitted by me fully or partially for the award of any Degree, Diploma, Associateship, Fellowship or other similar Title or Recognition before.



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This is to certify that the brief account on '**Role of State-level development financial institutions in the industrial development of Kerala with special reference to the Kerala Financial Corporation (KFC)**' written by Sri **N.K. BABU** for the Degree of Doctor of Philosophy in Commerce is a bonafide research carried out by the candidate under my supervision.

He is allowed to submit this dissertation for evaluation.

University Campus,
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Supervising teacher

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CONTENTS

List of Tables i - vi

List of Abbreviations [01]-[04]

CHAPTER	TITLE	PAGE
I	INTRODUCTION	01 - 24
II	REVIEW OF LITERATURE	25 - 78
III	INDUSTRIES IN KERALA AND THE ROLE OF PROMOTIONAL AGENCIES FOR INDUSTRIAL DEVELOPMENT IN KERALA	79 - 117
IV	ROLE OF KERALA FINANCIAL CORPORATION IN THE PROMOTION OF MSMEs IN KERALA	118 - 153
V	PATTERN, ORGANISATION AND WORKING OF BENEFICIARY UNITS	154 - 234
VI	SUMMARY OF FINDINGS, RECOMMENDATIONS AND CONCLUSION	235 - 274
	Bibliography	i - xv
	Appendices	/1/-/23/

LIST OF TABLES

No.	Title	Page
Table 1. 1	Categorisation of Revenue Districts by KFC	12
Table 1. 2	Selection of Sample Districts	13
Table 1. 3	Population and Sample Size	14
Table 1. 4	List of Officials Consulted for Information	15
Table 3. 1	Contribution of Major Industries to Economic Growth	80
Table 3. 2	State-wise Industrial Investment Proposals	85
Table 3. 3	Kerala's Ranking in Investment Attractiveness	87
Table 3. 4	Growth of Manufacturing Sector in Kerala (GSDP)	88
Table 3. 5	District-wise Distribution of GSDP from Manufacturing At Current Prices - 2005-'06	89
Table 3. 6	District-wise Distribution of Working SSIs (MSMEs) Registered in Kerala as on 31 st March 2006 and Grand Total as on 31-03-2008	93
Table 3. 7	Category-wise Promotion of Working SSIs (MSMEs) in Kerala as on 31 st March 2008	94
Table 3. 8	Share of Number and Production of SSIs in Kerala in Total SSIs in India during 1991, 2001, 2006 and 2008	95
Table 3. 9	State-wise Distribution of Sick/Incipiently Sick Units	96
Table 3. 10	District-wise Distribution of MSMEs as on 31-03-2008	98
Table 3. 11	Indices of Industrial Production 2003-'06 (1980-'81=100)	100
Table 3. 12	Cumulative Sum of Financial Assistance by Various AIFIs till 31-03-2006	106

Table 3. 13	Cumulative Sum of Financial Assistance Given by Various AIFs till 31 st March 2003	107
Table 3. 14	Total Financial Assistance Given by Various AIFs for the Period from 2000-01 to 2005-06	108
Table 3. 15	Cumulative Sum of Financial Assistance by AIFs to the State of Kerala till 31 st March, 2003	109
Table 3. 16	Total Financial Assistance by the AIFs to the State of Kerala out of Their Total Assistance till 31 st March 2003	110
Table 3. 17	Cumulative Assistance by SLFIs	113
Table 3. 18	Total Assistance by Seven DFIs During 1990-'91 to 2001-'02	113
Table 4. 1	Distribution of Shareholdings and Growth over Previous Years in Percentage	123
Table 4. 2	Composition of Shareholders as on March 31 st , 2009	125
Table 4. 3	Break-up of Sharecapital for the Period under Study	126
Table 4. 4	Borrowed Capital of the KFC during the Period under Study	127
Table 4. 5	Debt-Equity Ratio of the KFC	128
Table 4. 6	Summary of Loan Operations	131
Table 4. 7	Analysis of Loan Operations (AAG)	132
Table 4. 8	Size-wise Classification of Loans Sanctioned	133
Table 4. 9	District-wise Break-up of Effective Loans Sanctioned	135
Table 4. 10	Amount-wise Classification of Loans Sanctioned	136
Table 4. 11	Summary of Industry-wise Loan Disbursements	138
Table 4. 12	Highlights of Performance of the Corporation	139
Table 4. 13	Credit Disbursement of the KFC	140

Table 4. 14	Officials of the KFC Selected for Investigation	141
Table 4. 15	Frequencies of Visits of the KFC Officials Prior to Sanctioning the Loans	145
Table 4. 16	Interest Rates for Existing Customers	147
Table 4. 17	Rate of Interest for Loans Disbursed	148
Table 4. 18	Rate of Interest for Term Loans in Respect of Project/Activities Eligible for Assistance under TDMF and ISO 9000 Scheme	148
Table 5. 1	Selection of Sample Districts	155
Table 5. 2	Population and Sample Size of the Study	157
Table 5. 3	Gender-wise Distribution of Entrepreneurs per District	158
Table 5. 4	Education-based Distribution of Entrepreneurs per District	159
Table 5. 5	Classification of Entrepreneurs on the Basis of Income from Abroad	161
Table 5. 6	Classification of Entrepreneurs on the Basis of Previous Experience	162
Table 5. 7	Classification of Units on the Basis of Nature of Business	164
Table 5. 8	Classification of Borrower Units on the Basis of Nature of Products	165
Table 5. 9	Reasons for Selecting a Particular Business by the Borrower	167
Table 5.10	Difficulties Associated with Starting/Running the Unit	168
Table 5. 11	Classification of Borrower Units on the Basis of Size of Units	169
Table 5. 12	Form of Organisation-wise Classification of Units	170
Table 5. 13	Classification of Borrower Units on the Basis of Ownership of Premises	171

Table 5. 14	Details of Workers Employed During 2002-'07	172
Table 5. 15	Details of Mandays Generated	173
Table 5. 16	Financial Assistance Availed by Industrial Units	174
Table 5. 17	Total Capital and Working Capital	175
Table 5. 18	Gross Profit and Net Profit	176
Table 5. 19	Sales Revenue and Expenses	177
Table 5. 20	Financial, Cost and Accounting Information	178
Table 5. 21	Performance Indicators of Various Industries	179
Table 5. 22	Source of Information About the Service of the KFC	185
Table 5. 23	Details of Term Loans obtained from the KFC by the Units during 2002-'07	186
Table 5. 24	Purpose-wise Classification of Loans Sanctioned	187
Table 5. 25	Average Amount Spent to Obtain a Loan of Rupees 10 Lakh	189
Table 5. 26	Types of Security Insisted for Loans	190
Table 5. 27	Authority for Valuation of Collateral Security	191
Table 5. 28	Correctness of Valuation of Collateral Security	192
Table 5. 29	Extent of Undervaluation of Collateral Security	193
Table 5. 30	Other Sources of Finance of the Borrower Units	194
Table 5. 31	Kinds of Difficulties Faced in Getting Loan from the KFC	195
Table 5. 32	Attempts Made to Get the Loan on time from the KFC	196
Table 5. 33	Time Lag between Application and Sanction of Loans	197
Table 5. 34	Time Lag between Sanction and Disbursement of Loans by the KFC	198
Table 5. 35	Mode of Disbursement of Loans	200

Table 5. 36	Adequacy / Otherwise of Working Capital Loans Granted by the KFC	201
Table 5. 37	Utilisation of Working Capital Loan for Purchase of Raw Materials	202
Table 5. 38	Utilisation of Working Capital Loan for Payment to Creditors	202
Table 5. 39	Utilisation of Working Capital Loan for Meeting Other Expenses	203
Table 5. 40	Additional Loan for Expansion / Diversification	204
Table 5. 41	Premature Closing of Loan by Borrowers	205
Table 5. 42	Promptness in Repayment of Loan	206
Table 5. 43	Incentives for Prompt Repayment of Loans	207
Table 5. 44	Receipients of Subsidies / Exemptions on / from Repayment	208
Table 5. 45	Methods Adopted for Follow-up and Recovery of Loans	209
Table 5. 46	KFC's Response on Request for Rescheduling the Repayment of Loans	210
Table 5. 47	Opinion of Borrowers about the Service of the KFC	211
Table 5. 48	Suggestions of Borrower Units to Improve the Functioning of the KFC	212

Tables for Statistical Analyses :

Table 5. 49	Source of Information about the Service of the KFC	169
Table 5. 50	Time Lag between Application and Sanction of Loans	170
Table 5. 51	Time Lag between Sanction and Disbursement of Loan by the KFC	171
Table 5. 52	Mode of Disbursement of Loans	172

Table 5. 53	Other Sources of Finance of the Borrower Units	173
Table 5. 54	Relationship between Purpose of Loan and Form of Organisation	174
Table 5. 55	Difficulty/Otherwise in Getting the Loans	175
Table 5. 56	Relationship between Type of Security Offered and Size of Units	176
Table 5. 57	Relationship between the Methods Adopted by the KFC for Follow-up and Recovery of Loans and Size of the Industrial Units	177
Table 5. 58	Sanction of Loans	178
Table 5. 59	Anova (One way)	178
Table 5. 60	Utilisation of Loans Sanctioned	179
Table 5. 61	Anova (One way)	179
Table 5. 62	Opinions of the Beneficiaries of the KFC about Its Service	180
Table 5. 63	Anova (One way)	180
Table 5. 64	Opinions of the Beneficiary Units about the Service of the KFC	181
Table 5. 65	Anova (One way)	181
Table 5. 66	Opinions of the Beneficiary Units about the Service of the KFC	182
Table 5. 67	Anova (One way)	182
Table 5. 68	Gender-wise Classification of Loans Sanctioned	183
Table 5. 69	Gender-wise Classification of Utilisation of Loans	184

List of Charts:

Chart 3.1	Major Industrial DFIs in India	102
Chart 4.1	Hierarchy of Management of the KFC	121

ABBREVIATIONS

ADB	Asian Development Bank
AIDB	All India Development Bank
AIFI	All India Financial Institution
AP	Andhra Pradesh
APSFC	Andhra Pradesh State Financial Corporation
BEP	Break Even Point
BOT	Build, Operate own and Transfer
BOOT	Build, Operate, own and Transfer
BSIDC	Bihar State Industrial Development Corporation
CDS	Centre for Development Studies
CII	Confederation of Indian Industry
CR	Current Ratio
CUSAT	Cochin University of Science and Technology
DB	Development Bank
D-E	Debt-Equity
DFI	Development Financial Institution
DIC	District Industries Centre
GDP	Gross Domestic Product
GIC	General Insurance Corporation
GIM	Global Investor Meet
GOK	Government Of Kerala
G/P	Gross Profit

GSDP	Gross State Domestic Product
GSFC	Gujarat State Financial Corporation
HFC	Haryana Financial Corporation
IBRD	International Bank for Reconstruction and Development
ICICI	Industrial Credit and Investment Corporation of India
IDBI	Industrial Development Bank of India
IFCI	Industrial Finance Corporation of India
IFI	Industrial Finance Institution
IIBI	Industrial Investment Bank of India
IMF	International Monetary Fund
IRBI	Industrial Reconstruction Bank of India
ISO	Indian Standards Organisation
IT	Information Technology
KFC	Kerala Financial Corporation
KSIDC	Kerala State Industrial Development Corporation
LIC	Life Insurance Corporation
LOC	Line Of Control
LPG	Liberalisation, Privatisation and Globalisation
MDI	Management Development Institute
MP	Madhya Pradesh
MS	Margin of Safety
MSME	Micro, Small and Medium Enterprise
NBFC	Non-Banking Financial Company
NBFI	Non Banking Finance Institution

N/P	Net Profit
NPA	Non-Performing Assets
NRI	Non-Resident Indian
OPR	Operating Profit Ratio
OR	Operating Ratio
OTS	One Time Settlement
PFC	Punjab Financial Corporation
PHWC	Primary Handloom Workers Co-operatives
PSIDC	Punjab State Industrial Development Corporation
RFC	Rajasthan Financial Corporation
ROI	Return On Investment
RBI	Reserve Bank of India
SBI	State Bank of India
SBT	State Bank of Travancore
SFC	State Financial Corporation
SFI	Specialised Financial Institution
SLFI	State-level Financial Institution
SHG	Self Help Group
SIDBI	Small Industries Development Bank of India
SIDC	State Industries Development Corporation
SME	Small and Medium Enterprise
SSIs	Small Scale Industries
STPS	Software Technology Park Scheme
TUF	Technology Upgradation Fund

TDMF	Technology Development and Modernisation Fund
UPSFC	Uttar Pradesh State Financial Corporation
U/S	Under Section
UT	Union Territory
UTI	Unit Trust of India

List of Mathematical and Statistical Symbols, Acronyms etc. Used

AAG	Annual Average Growth
ANOVA	Analysis Of Variance
C.V	Co-efficient of Variation
Df	Degree of freedom
F	F test
N	Number
P	Level of significance (Sig)
t	t test
χ^2	Chi-square
\bar{x}	Mean
ϵ	Sigma (Total)
σ	Standard Deviation

CHAPTER I

INTRODUCTION

- 1.1 INTRODUCTION**
- 1.2 STATEMENT OF THE PROBLEM**
- 1.3 RELEVANCE OF THE STUDY**
- 1.4 SCOPE OF THE STUDY**
- 1.5 PERIOD OF REFERENCE**
- 1.6 OBJECTIVES**
- 1.7 HYPOTHESES**
- 1.8 METHODOLOGY**
- 1.9 SAMPLING SIZE AND TECHNIQUES**
- 1.10 METHODS OF DATA COLLECTION**
- 1.11 TOOLS OF DATA ANALYSIS**
- 1.12 VARIABLES USED IN THE STUDY**
- 1.13 LIMITATIONS OF THE STUDY**
- 1.14 SYNOPTIC VIEW OF THE REPORT.**

REFERENCES

REFERENCES

CHAPTER I

INTRODUCTION

I. 1 Introduction

Economic development is the primary objective of every nation. It is a continuous and comprehensive process. Rapid economic development basically depends on industrialisation. Industry is the process in which there is sharp increase in the industrial share of Gross Domestic Product and labour force. Industrialisation is considered an effective strategy for increasing the rates of economic development. The significance of Industrialisation as a means to increase the rates to attain rapid development and prosperity has been recognized widely by planners, philosophers and economists from the very ancient period. The terms 'economic growth' and 'industrialisation' are synonymously used to a certain extent. A major share of the National Income of the country is from its industries. Further, industrialisation enhances foreign exchange earnings and creates better economic stability and facilities.

Industrialisation is associated with investment, i.e., deployment of credit. Every problem of the entrepreneur concerning production or materials, quality or marketing, in its ultimate analysis, is a financial one. Thus, finance is the essential input around which all activities gain momentum. Economic growth, therefore, certainly requires better deployment of credit. "The level of deployment of bank credit can be better assessed in comparison with the

growth of economy-state income”¹. In an underdeveloped economy like India, where economic development is a process to be planned and assisted by the Government, better deployment of credit is a sine qua non. Financial resources for industrial growth may come through two sources, viz., domestic capital formation and import of capital. Small Scale Industrial units which are predominantly organized as proprietary and partnership concerns have no access to capital market or imported capital. Hence, the complaint often made in various parts of the country is about the lack of finance to the small sector. It is to mitigate the financial problems of this sector that the Government has established various Development Financial Institutions. Institutional financing has been a unique source of domestic capital formation. “The readiness of financial institutions to adopt the objective of development - economic and social, and to bring about a great mobility of resources to meet the emerging needs of the economy is a necessary concomitant of development”². With the launching of the Five Year Plans, there was need for enlarging the institutional structure to meet the needs of the industrial sector. “A rapid industrial development calls for heavy doses of finance. Development banks and financial corporations came into existence in India in the post-Independence period with the aim of accelerating economic growth through speeding up the process of industrialization and have come to the corporate sector”³. At present, India has a better network of DFIs at the national and State levels. Both, medium and long-term financial assistances are offered by these multipurpose financial institutions.

All India Financial Institutions (AIFIs) have been instrumental in accomplishing the overall national objective of economic growth. It is not possible for the AIFIs to bring about a balanced regional development in different States. Therefore, existence of different State Level Financial Institutions (SLFIs) with liberal and transparent norms, diversified schemes and wide coverage has become need of the hour. The SLFIs can come closer with entrepreneurs and free exchange of idea and feedback are possible. Thus, the establishment of various SLFIs was an action in the right direction. The Government of India passed the SFCs Act in 1951 facilitating the setting up of SFCs in different States. The primary objective of the Corporation is to give advances to the MSME segment, thereby to meet the medium-term and long-term credit requirements of this sector. In spite of the premier role assigned to the SFCs for financing small industries in the State concerned, small entrepreneurs still hesitate to approach them for various reasons. The difficulty in getting the right type of finance at the right time and in the right quantity continues to haunt the small entrepreneurs and still ranks first among the major problems faced by the small sector. This being the situation, it has become relevant to conduct a study aimed at evaluating the role and performance of the SFCs.

The role assessment of the SFCs is done at the micro level by restricting it to a single Corporation. This decision is prompted by the fact that the functions discharged by all SFCs are similar. Therefore, it is felt that a micro analysis would serve more than a macro analysis of the performance of all

SFCs. The Kerala Financial Corporation appears to be the best choice for the study not only due to the magnitude of its operation but also due to the fact that it is one of the oldest SFCs functioning in the country. Hence, the role of evaluation of DFIs is limited to the KFC.

I. 2 Statement of the Problem

The Kerala Financial Corporation has been established with a view to financing, promoting and rehabilitating the small and medium enterprises. It is the premier institution for industrial finance in the State. Also, in the absence of a developed capital market in Kerala, the DFIs are still the major source of the much needed long-term finance to the MSMEs. With the decline in the number of DFIs, due to the ceasing of the ICICI and the IDBI as DFIs, in the face of financial sector reforms, innovative financing mechanism of the remaining State level DFIs is expected to take care of the need of project financing. The KFC, therefore, has to be very seriously concerned with the development of the MSME segment which is one of the most dynamic and vibrant sectors in the Indian economy. Facts do reveal that the MSME segment is struggling hard even for its existence in spite of the assistance from various SLFIs like the KFC. Despite the sound financial background, the role of the KFC in extending finance to industries is still found to be confined to a particular limit. It has been observed that in the case of the KFC, there had been a concentration of industrial activity in a few already industrially developed districts of Kerala. This tendency has been so over time. A wide gap

is existing between the demand for and supply of financial assistance from the KFC. In the year 2007, only 74.9% and in 2008 only 73.8% of the total demand were sanctioned. Such a diminishing trend is seen year by year. Also, many industrial units are found to be averse to approach the Corporation for further assistance. This situation calls for a diversified thinking by financial institutions like the KFC. A better consumer – suited programme has to be framed. Further, keeping pace with the higher global and domestic economic growth, the MSME segment has to accelerate its growth rate substantially, especially in a period of global recession. The DFIs do not give much attention in this regard. As far as the State of Kerala is concerned, it is the KFC which has to do more for the development of the MSME sector. The KFC has to be more efficient and vigilant in promoting this segment. A separate scheme, namely, the Micro and Small Enterprise Development Package –MSEDP –has to be formed. This study focuses on its necessity. Further, this study aims at bringing change in the procedure of the Corporation in its so-called concentration in a few industrially developed districts.

I. 3 Relevance of the Study

A detailed study on the role of the KFC in the industrialisation of Kerala is highly worthwhile especially in the period of global recession. Various provisions of the SFCs Act enjoin on the KFC to undertake the stupendous task of industrial development in the State concerned by providing long-term credit to the MSME segment. Hence, a detailed study on how far the KFC has succeeded in this regard is highly relevant. Further, the present study

looks into the extent to which the Corporation has adjusted to the changed operating environment with its diversified schemes to satisfy the investors in industry.

Further, the study is more relevant as it makes an attempt to analyse the outcome of the results of Global Investor Meet (GIM) conducted by the Government of Kerala during the period of study. The study is highly relevant in a period of economic meltdown which results in overall crisis in the global employment scenario. The extent up to which the KFC has gone to rehabilitate the jobless people and the gulf returnees is a matter of concern. Also, it has relevance in a period of ceasing of the development status of various all India financial institutions like the IDBI and ICICI. In this context, the KFC has to play vital roles.

I.4 Scope of the Study

This study is an attempt to note the changes having taken place in the industrial profile consequent on the intervention of the KFC in industrial development. It considers the issues and possibilities in this respect. Problems associated with lending, security, repayment, recovery, rehabilitation, feedback, follow-up, etc., are examined here. The study is confined to the KFC – aided units. The study also attempts to put forth some possibilities and recommendations for improvement of the performance of both the KFC and the beneficiary units.

I.5 Period of Reference

The study covers a period of five Years from 2002-'03 to 2006-'07, which falls within the tenth plan period. However, for long-term analysis, data relating to the previous years and the data belonging to the years 2007-'08 and 2008-'09 are also taken into consideration

I.6 Objectives

Primary Objectives :

1. To review the structure and pattern of industrial development in Kerala and the institutional support for industries.
2. To examine the role played by the KFC in promoting the MSME segment in the State.

Secondary Objectives :

1. To study the social background, organization, structure and working of the industrial units aided by the KFC.
2. To study the regional considerations on sanctions and disbursements of loan by the KFC.
3. To study the impact of factors like gender of the entrepreneurs, size and form of industrial units on sanctioning the loans.
4. To study the mode of disbursement of loans by the KFC, the trends of repayment of loan, etc.
5. To suggest suitable measures for improvement of functions of the KFC and the aided MSMEs.

I. 7 Hypotheses

As much as six main hypotheses (five null hypotheses and one alternate hypothesis) consisting of a total of sixteen sub-hypotheses have been formulated as elucidated below.

There is no significant relationship between the region of industrial units and the source of information about the service of the KFC, time lag in sanctioning and disbursing the loans, methods of loan disbursement and the assistance sought by the units from other sources.

From this null hypothesis, the following sub-hypotheses are formed.

H I. 1: There is no significant association between the regions of industrial units and the source of their information about the service of the KFC.

H I. 2: There exists no dependence between the time lag in sanctioning the loans applied for and the locality of the industrial units.

H1. 3 : There is no significant dependence between the time lag in disbursing the loan sanctioned and the location where the industrial units are situated.

H1. 4: There exists no significant association between the methods of loan disbursement and the location of industrial units.

H1.5: There is no significant relation between the financial assistance from sources other than the KFC and the location where the industrial units are situated.

There is no dependence across the form of business organisation, the purpose of loan availed of and the difficulties associated with starting / running the industrial unit.

From this null hypothesis, the following sub-hypotheses are formed.

H2.1 : The purpose of loan sanctioned is independent of the form of the industrial unit.

H2.2 : There is no dependence between the difficulties faced in obtaining loan from the KFC and the form of organisation of the beneficiary units.

There is no significant difference across the size of beneficiary units and type of security offered by loanees and the methods adopted for follow-up and recovery of loans by the KFC.

From this null hypothesis, the following sub-hypotheses are formed.

H3.1 : There is no significant relationship between the type of security and the size of industrial units.

H3. 2 : There is no dependence between the methods adopted by the KFC for

follow-up and recovery of loans and size of the industrial units.

There is no variation across the regions and the amount of loan sanctioned to the units and the amount utilised by the units.

From this null hypothesis, the following sub-hypotheses are formed.

H4. 1 : There is no variation in the amount of loan sanctioned to the units of various districts.

H4. 2 : There is no significant variation in the amount utilised by the industrial units of different districts.

There is no variation in the opinions of the beneficiaries about the service rendered by the KFC, from the units of different districts, different form of organization and different size.

From this null hypothesis, the following sub-hypotheses are formed.

H 5. 1 : There is no variation in the opinions of the beneficiaries of different districts about the service rendered to them by the Corporation.

H5. 2: There is no significant variation in the opinions of the beneficiary units of different forms of organisation about the service of the KFC.

H5. 3 : There is no significant difference between the opinions of beneficiary industrial units of different size about the service of the KFC provided to them.

There is significant difference in sanctioning loans by the KFC to male and female entrepreneurs.

Two sub-hypotheses are formed on the basis of this alternate hypothesis.

H 6. 1 : There is discrimination on the part of the KFC in sanctioning loans to male and female entrepreneurs.

H 6. 2 : There is significant difference between the utilisation of loans sanctioned and the gender of the entrepreneurs.

I 8 Methodology

The study requires both primary and secondary data. Primary data for the study were collected from the officials of KFC and from the sample beneficiary units, by the questionnaire method and the secondary data were collected from various official records and reports.

I. 9 Sampling Size and Techniques

Stage 1: Selection of Sample Districts

The KFC itself has classified the State of Kerala into four categories, as shown in Table 1.1

Table 1.1
Categorisation of Revenue Districts by KFC

Backward Districts			Non-Backward Districts		
C A T E G O R Y	A	Idukki	C A T E R Y		Pathanamthitta
		Wayanad			Kollam
	B	Alappuzha		Kottayam	
		Malappuram		D	Ernakulam
		Kannur			Palakkad
	Kasargode	Kozhikkode			
	C	Thiruvananthapuram			
		Trissur			

Source : Annual Report of KFC 2002

In order to select four sample districts, the KFC's grouping of the 14 revenue districts into four categories, viz., A, B, C and D, was taken as the base. Selection of four out of 14 revenue districts was made using the *stratified*

sampling method in such a way that one revenue district each from all four categories was included in the sample. Accordingly, four districts as given in Table 1. 2 were selected.

Table 1. 2
Selection of Sample Districts

Sl.No	Districts	Category
1.	Idukki	A
2.	Malappuram	B
3.	Thiruvananthapuram	C
4.	Ernakulam	D

Stage 2 : Selection of Sample Units

The total sanctions of financial assistance by the Corporation since its inception till 31-03-2008 amounted to Rs. 3,11,018.24 lakh, for a total of 39,814 industrial units across the State of Kerala⁵. As per the annual reports of the years under study (2002-'07), the KFC had financed a total of 2,493 units (696 units in 2002-'03, 581 units in 2003-'04, 387 units in 2004-'05, 368 units in 2005-'06 and 461 units in 2006-'07) which constitute the universe. From 2,493 units, 962 units belong to the districts under study. Therefore, the population for the study is tantamountig to 962 units. From the population, a total of 60 units, 15 each from the sample districts, was chosen on *simple random sampling* using the lottery method as follows.

The list consisting of 962 industrial units (Idukki - 145, Malappuram - 145, Thiruvananthapuram - 227, and Ernakulam - 445) incepted during the period under study was collected from the respective district offices of the Corporation. From this list, 15 units were selected from each district by simple random sampling, applying the lottery method. Accordingly, all the units in each district were numbered consecutively and these numbers were written on separate slips of identical size and shape, made of yellow paper. These paper slips were folded uniformly and mixed thoroughly in a box. A blindfold selection of 15 slips was made then for each district. The population and sample size of the study are presented in Table 1. 3.

Table 1.3
Population and Sample Size

Sl.No	Sample districts	Population for the study	Sample units
1.	Idukki	145	15
2.	Malappuram	145	15
3.	Thiruvananthapuram	227	15
4.	Ernakulam	445	15
Total		962	60

Source: Annual Reports of KFC and hearsay from KFC officials.

Stage 3 : Selection of KFC officials.

Thirteen officials of the KFC were selected - by judgement sampling - and consulted. Their distribution is tabulated below.

Table 1. 4
List of Officials Consulted for Information

Sl. No.	Office	Number of officials
1.	Head Office, Thiruvananthapuram	01
	<u>IDUKKI DISTRICT</u>	
2.	Thodupuzha Branch	02
3.	Kattappana Branch	01
4.	Malappuram Branch	03
5.	Thiruvananthapuram Branch	03
	<u>ERNAKULAM DISTRICT</u>	
6.	Ernakulam Branch	01
7.	Perumbavoor Branch	02
	Total	13

I. 10 Methods of Data Collection

Both primary and secondary data were collected for the study.

I. 10. 1 Collection of Primary Data

Primary data for the study were collected from the officials of the KFC and from the sample beneficiary units, by the questionnaire method. Two separate sets of questionnaire were made for this purpose (APPENDICES I & II). Discussions in person and over the phone were also made whenever necessary. Both the sets of questionnaire were pre-tested in Ernakulam district by conducting a pilot survey. The tentative questionnaires were revised on the basis of the experience of the pilot survey. The collection of primary data was carried out in eight months from April to November 2006.

I. 10. 2 Collection of Secondary Data

Secondary data were collected from various official records and reports as listed below:

Annual Reports of AIFIs like IDBI, ICICI, SIDBI, IFCI, etc., Annual Reports of KFC and KSIDC, RBI Bulletin, Economic Review of the Planning Board (Govt of Kerala), Periodicals of the Planning Commission of India, IDBI Report on Development Banking, Copies of Budget Speeches of Ministers in the State Assembly and Parliament, Study Reports of the Department of Economics and Statistics of the Government of Kerala, Plan Documents of Central and State Governments, White Paper Published by the Government of Kerala, Statistical statements on the performance of the small-scale sector published by various agencies, Report of Academics on the

institutional finance field, Texts dealing with industrial and institutional finance, and other available periodicals dealing with the subject.

In addition to the above-mentioned sources, data were collected from various websites like: www.kfc.org; www.rbi.org.in; www.ifin@hathway.com; www.infinserv@bol.net.in; www.ksidc.org; www.idbi.com; <http://www.ifcilttd.com>; and <http://www.sidbi.com>.

I.11 Tools of Data Analysis

Various statistical methods were applied for analysis. The objectively collected data were suitably classified and arranged in tables and included in appropriate chapters. Various tools like percentages, ratios, averages, growth indices, co-efficient of variation, Chi-square, F test, t test, etc., were mainly used for analysis and interpretation. The analysis was carried out by using the statistical software SPSS.

I. 12 Variables Used in the Study

I *To review the structure and pattern of industrial development in Kerala :*

1. Contribution of major industries
2. Industrial investment proposals
3. Investment attractiveness
4. Gross State Domestic Product
5. Regional dispersal of SSIs (MSMEs)
6. Promotion of working SSIs (MSMEs)

7. Number and production of SSIs in Kerala against the total SSIs in India
8. State-wise distribution of sick/incipiently sick units
9. District-wise distribution of medium and large-scale industries
10. Index of industrial production
11. Lending by financial institutions

II *To examine the financial profile of the KFC :*

12. Capital structure
13. Owned capital
14. Composition of shareholdings
15. Break-up of sharecapital
16. Loan Capital
17. Debt Equity

III *To examine the role played by the KFC in promoting the MSME segment:*

18. Summary of loan operations
19. Total revenue
20. District-wise classification of loans sanctioned
21. Amount-wise classification of loans sanctioned
22. Industry-wise classification of loans disbursed
23. Rate of interest
24. Total sanctions
25. Total disbursements

IV *To Examine the operations of the KFC :*

26. Sanctions of loans as a percentage of applications
27. Disbursements of loans as a percentage of sanctions
28. Recovery as a percentage of loans disbursed
29. Current recovery
30. Net Profit / Loss

V *To study the social aspects of entrepreneurs :*

31. Gender of entrepreneurs
32. Educational qualification
33. Previous experience in industrial activity
34. Family background

VI *To study the nature, form, size, manpower, etc., of the units :*

35. Nature of business
36. Nature of product
37. Size of the unit
38. Form of organisation
39. Ownership of premises
40. Employment provided
41. Number of mandays generated

VII *To study the financial aspects of the units :*

42. Total capital
43. Working capital
44. Fixed capital

45. Own capital
46. Debt capital
47. Current assets
48. Current liabilities
49. Sales revenue
50. Fixed cost
51. Variable cost
52. Total cost
53. Operating expense
54. Gross Profit
55. Net Profit

VIII *To study the level of performance of the units :*

56. Current Ratio
57. G/P ratio
58. N/P ratio
59. Operating ratio
60. Operating profit ratio
61. D:E ratio
62. ROI
63. Break-Even Sales
64. Contribution
65. P/V Ratio
66. Margin of safety

IX *To study the perceptions of loanees on the lending operations of the KFC :*

67. Amount required
68. Amount of loan applied for
69. Amount of loan sanctioned
70. Purpose of loan
71. Cost of borrowings
72. Types of security insisted
73. Other sources of finance of the loanees
74. Time lag in sanctioning the loans
75. Time lag in disbursing the loans
76. Mode of disbursement
77. Adequacy of working capital loan
78. Utilisation of working capital loan
79. Repayment of loans
80. Premature closing of loans

I.13 Limitations of the Study

The study has the following limitations:

1. The KFC does not have adequate or systematic information about the working of the industrial units financed by it.
2. Some of the industrial units selected for the study are found to be not existing. Such short-lived units and some defunct units in the sample were replaced with other units.

3. Many of the assisted units do not maintain systematic books of account and other records. It is so more in the case of sole proprietorship units. This creates difficulties in gathering the required information. This situation necessitated the collection of some data by the observation method.
4. In some cases, entrepreneurs give information from their memory. Such information may not be reliable.

I.14 Synoptic View of the Report

This study consists of *six* chapters

Chapter One: The introductory chapter deals with the significance of the industrial sector in economic growth. It consists of the problem statement, relevance, scope, period, objectives, hypotheses, variables used, methodology, sampling size, methods of data collection, tools of data analysis, limitations of the study, and the synoptic view of the Report.

Chapter Two: This chapter attempts a review of the available literature relating to the present study.

Chapter Three: This chapter explains the trends of industrialization in the State and the role of various promotional agencies for the industrial development of Kerala.

Chapter Four : This chapter deals with the role of the Kerala Financial Corporation in the promotion of MSMEs in Kerala. It has three parts, viz., A, B and C. Part A is concerned with the profile of the Corporation: its establishment, organisation and management; capital structure and purpose, functions and schemes of financial assistance. Part B deals with summary of loan operations of the Corporation during the period under study. Total loan operations and district-wise, amount-wise, size-wise and industry-wise break-up of operations are also included in this part. Part C is concerned with the loan disbursement and repayment systems of the KFC.

Chapter Five : This chapter analyses the pattern, organisation and working of beneficiary units in four parts, viz., A, B, C and D. Part A deals with the demographic profile of the units; part B is concerned with the profile of borrower units, part C deals with the working of beneficiary units and realization of their objectives and part D is concerned with testing of various hypotheses formulated.

Chapter Six : This chapter summarises the findings of the previous chapters. Some measures for improving the performance of the KFC and for attaining fruitful results by the aided units are also included in this chapter.

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CHAPTER II

REVIEW OF LITERATURE

AREAS OF STUDY

- 1. ROLE OF KERALA FINANCIAL CORPORATION**
- 2. SFCs OTHER THAN THE KFC**
- 3. ALL INDIA DFIs**
- 4. COMMERCIAL BANKS AND OTHER FIs**
- 5. COMPARATIVE STUDIES ON VARIOUS FIs**
- 6. INSTITUTIONAL FINANCE AND INDUSTRIALISATION**

REFERENCES

CHAPTER II

REVIEW OF LITERATURE

In most developing countries, specialised agencies have been created by the Government for industrial development. In India also, there are national and State level agencies engaged in industrial finance and development. The State Financial Corporations have been established as a part of this effort. This chapter attempts a brief review of the available literature relating to the role of various Development Financial Institutions. The available literature has been classified into six areas, viz.

1. Role of the Kerala Financial Corporation
2. SFCs other than KFC
3. All India DFIs
4. Commercial banks and other FIs
5. Comparative studies of various FIs
6. Institutional finance and industrialization

Further, the review categorises the works into : Doctoral Theses, M. Phil. Dissertations, Seminar Papers and Articles, Reports of Commissions and Other Agencies and Texts.

Area of Study - 1 : Role of the Kerala Financial Corporation

A. Doctoral Theses

T. C. Simon (2006)¹ studies the influence of KFC in the industrial development of the northern districts of Kerala. He views that these districts have been industrially developed due to the intervention of the Corporation. Simon calls for revamping the framework of financial assistance of the Corporation.

B. Gopakumar (2005)², in his doctoral thesis entitled 'Role of Institutional Finance in the Development of Small Scale Industries in Kerala', analyses the role of KFC in particular and views that overdue and recovery problems ail the Corporation to a great extent. Gopakumar calls for a better and creative approach for comfortable recovery procedure.

Jancy Davy (2004)³ compares the financial assistance provided by the commercial banks, and DFI, for the development of industries in Kerala. The DFIs chosen for the study consist of both KFC and KSIDC. In her opinion, the procedure adopted by these corporations have to be more rational and transparent so as to enable real entrepreneurs to enjoy the financial assistance.

V. L. Jacob (2002)⁴ makes a study on the lending policy and recovery performance of the KFC. He views that increasing overdues is a serious problem faced by the KFC. A strong programme of supervision and follow-up procedure should be chalked out to check the mounting overdues.

C. Ganesh (1993)⁵ makes a comparative study of the performance of the SFCs of Kerala, Tamil Nadu, Karnataka and Andhra Pradesh. In his opinion, the time gap existing in the processing of application is so wide that most entrepreneurs do not get assistance on time. Urgent steps should be taken to reduce this time gap. The procedure for sanctioning financial assistance should be rationalised and simplified. Ganesh also finds that the KFC-aided units have defaulted in repaying the loans while the bulk of the corresponding units in the other group of SFCs are found to be prompt in discharging their debts. Delay in starting commercial production is the major reason for default in the case of the KFC-aided units. The study recommends, starting a separate bank exclusively for the tiny sector at the State-level on the same lines of the SIDBI.

Thomas Koshi (1992)⁶ analyses the role of non-banking financial institutions in the industrialisation of Kerala. His study considers the role of the KFC and the KSIDC in promoting industrial units across Kerala. He finds out that many borrowers misuse the money borrowed from these NBFIs. Koshi requires the officials of the NBFIs to ensure themselves that the money borrowed from the institutions is utilised for the purpose for which it is given.

K. B. Pavithran (1989)⁷ analyses the role of the Kerala Financial Corporation in the rural industrialization of Kerala. He views that the KFC makes undue delay in disbursing the assistance already sanctioned and in

collecting the disbursed credit. This negligence has adversely affected the functioning of the Corporation.

B. R. Ananthan (1981)⁸ analyses the areas of resource mobilization, financial operation, balanced regional development, recovery of dues and profitability of the Kerala Financial Corporation. He states that the Corporation was not able to diversify its schemes of assistance. Further, it has failed in activating the capital market and reducing the regional imbalance. The study also finds out that the Corporation faced difficulties like poor project appraisal, mounting overdues, etc. Ananthan advocates the formation of a special capital by the KFC to undertake capital underwriting and guaranteeing. Besides, he favours taking up of underwriting business by the KFC on a consortium basis with similar DFIs carrying out sound project appraisal, reduction of time lag between sanction and disbursements, better supervision of the total activities and effective streamlining of the management of the Corporation.

B. M. Phil. Dissertations

K. Padmakumar (1991)⁹, in his study on 'Business Plans for KFC: Futuristic Options,' evaluates the present practice followed by the KFC in framing its business plans. He finds that the Corporation does not follow a decentralised planning system. Both the overall mission and business plans for all of its sub-systems should be decentralised. The study finds out that the major portion of the assistance of the Corporation was given to a few

developed areas. However, an increasing trend showing a favourable consideration for backward areas was seen during the period under study. Likewise, the share for the small-scale sector has been greater than for the medium-scale sector. The study also points out the difficulties of the borrowers in getting finance from the Corporation. Padmakumar calls for an integration of the efforts of all other agencies whether financial, along with the Corporation, which in turn will help remove the backwardness of the State. His suggestion is to have a simplified official procedure with respect to the sanctioning of the loan. For this, simplification and effective examination of loan application, provision of working capital, etc., may be adopted.

S. Krishna Kumar (1982)¹⁰ studies the development of the strategy for massive effort for small-scale industries in Kerala. He recommends a thorough re-organisation and revitalisation of the leadership of the Kerala Financial Corporation. In his opinion, the lending policies and practices and other directives of both the banks and the government in the State are far better. The study reveals that, for the small industries services to become effective, district level offices of the KFC must be started along with the district offices of the Kerala State Industrial Development Corporation.

Area of Study - 2 : SFCs other than the KFC

A. Doctoral Theses

R. C. Dangwal (1992)¹¹ examines the role of the UPSFC in the industrial development of the State. The study finds out that the major portion

of the assistance of the Corporation was given to a few developed areas. However, a trend showing priority for the backward areas is seen during the period under study. The study also points out the difficulties of the borrowers in getting financial assistance from the Corporation. He calls for pooling the efforts of all institutional agencies, whether financial or not, which in turn will help the balanced development of different areas of the State. Dangwal further suggests to have a simplified official procedure with regard to sanctioning the loans. For this, he suggests an effective scrutiny of loan application, provision of working capital assistance, organizing seminars by competent and qualified professionals, friendly attitude by the officials, and determination of gestation period after assessing the situations on a case-to-case basis.

K. Omprakash (1990)¹² emphasises the necessity of having a sound capital strength for the SFCs. In his opinion, the equity base of the Corporations is not strong enough to face the challenges ahead. The lion's share in the capital of the SFCs is the refinance from the IDBI. The SFCs can achieve diversification of their schemes of financial assistance only if they have a sound equity base. Almost all the SFCs have failed in this respect. The small-scale sector has not obtained the deserving assistance from the Corporations. The study discloses that basic and capital-intensive industries have received more assistance and it is a shift from the precedence. It further reveals that the credit extended to backward districts is inadequate. Concessional finance and subsidy schemes could not succeed in the removal of backwardness. One of the major problems faced by these Corporations in their

operations is the high magnitude of overdues and suit-filed debts. The APSFC had very much overdues during the initial period of the study and the grip over the overdues was lost towards the end of the study. Omprakash concludes the study by stating that the APSFC is far better than any other SFCs of India and by giving several suggestions for the improvement of the Corporation.

Ram Chandra Sing (1990)¹³ appraises the working of the Bihar State Financial Corporation in Tirchut Division. He suggests the provision of financial assistance to industries at concessional rates by the Corporation.

R. J. Bhanwar Sing Purohit (1990)¹⁴ views that poor follow-up, feedback and ineffective recovery are the real causes of the low profitability of the SFCs. This problem is more in respect of RFC since its profitability has been adversely affected as a result of mounting overdues. Over the years, the recovery aspect has not been given the consideration it deserves, which has resulted in increasing the overdues. Purohit opines that profitability and control are the two important things without which no industrial organization can think of its survival. Profit making is closely linked with the quality of control functions.

S. Dhanker Raj (1989)¹⁵ examines the role of the Haryana Financial Corporation in the industrial development of the State. The study discloses that for all financial institutions, recovery is a hard task. Many of the entrepreneurs misuse the funds borrowed from DFIs. Raj evaluates that the HFC plays a vital role in the industrialization of the State. He suggests opening

of more local offices of FIs at all industrial centres so as to enable them to serve the backward areas. He highlights the need for providing technically qualified personnel to the industrial units.

M. L. Jain (1986)¹⁶ makes a critical study of the role of industrial financing in India by the SFCs, with special reference to the UPSFC. He views that the SFCs have to pay more attention towards the extension of credit to tiny units and also towards the diversification, expansion, modernization and rehabilitation of SSIs. Jain also comments on the necessity of strengthening the capital base of SFCs.

Chengaiiah Chetti (1985)¹⁷ examines the role of APSFC in the industrialization of AP. He evaluates that the overdue position of the Corporation is becoming worse day by day. He favours the formulation of various techniques to check the overdues.

S. S. Sikidar (1982)¹⁸ makes an analysis of the contributions of the Assam Financial Corporation in the industrialization of the region and evaluates its policies, procedural norms, practices and overall performances.

T. Bapa Rao (1982)¹⁹ analyses the contributions of the APSFC for the development of small industries in the State. He finds that the Corporation has done much in this regard, and for the development of the State as a whole.

Appa Rao (1982) ²⁰ analyses the role of the Andhra Pradesh State Financial Corporation in the promotion of small enterprises in AP. The study confines itself to the aspect of industrial finance of SSIs in the State. He opines that the APSFC has to revamp its schemes and procedures of financial assistance in such a way that they are accessible to all small and tiny enterprises. Further Rao stands for more transparency in the norms and procedures of lending by the FIs.

S. B. Sing (1978) ²¹ makes a study on the resource mobilisation and lending operations of the Uttar Pradesh Financial Corporation. He evaluates the performance of the Corporation in the attainment of its goals. He considers that the lending policy of the Corporation was purely security-oriented and highly conservative. The Corporation was characterised by an unsound financial base. He opines that it should be strengthened by tapping resources through the issue of bonds and commercial papers. Further, the Corporation was confronted with poor recovery positions. Sing recommends the implementation of a performance budgeting system and setting up of a separate development wing to undergo the recovery steps. He also suggests the re-constitution of the organisational structure of the Corporation so as to enable it to cope with the requirements of industrial units.

Ram Krishna Dubey (1968) ²² analyses the results achieved by State Financial Corporations in the light of their policies and procedures. He opines that owing to insufficiency of funds, the SFCs are not able to assist industrial

units in accordance with the timely demands, consequent on the increases of the scale of business of such units. Moreover, Dubey points out some other difficulties of the SFCs which include lower diversification of assistance, higher debt-equity ratio, inadequate number of technical personnel, etc. In his opinion, the performance of the SFCs should be evaluated on the basis of prompt and timely assistance to industries and not on the basis of their ability to generate funds.

B. Seminar Papers and Articles

R. G. Chaturvedi and B. B. Bugga (2000) ²³ comment on the comprehensive amendment of the State Financial Corporations Act 1951. Judicial announcements of various courts on the amendment are also covered in the analysis.

Sharmila Dayal (1996) ²⁴ examines the various shortcomings in the functioning of the UPSFC. The study views that a grass-root level change should be effected in the overall performance of the Corporation. It suggests a revised and simplified interest rate, affordable re-payment schedule, implementation of a system of scientific management in key areas including decision making and assigning responsibility, etc. The customer should be considered the king. The study further says that, if necessary, additional loans should be given to the borrowers so as save them from the evils of assistance from commercial banks. Dayal suggests a provision of subsidy for power generating units, continuation and decentralisation of the development

programmes, motivating customers to make a pool to tide the problem of raw materials over framing a creative system of staff- training and development so as to cope with the needs of changed industrial context, and reduction of time lag between sanction and disbursement of loans. A system of objective appraisal of each case may be effected which, in turn would help reduce the problem of overdues. It can also be reduced if a system of Debtor/Dues Insurance on the footing of Deposit Insurance Corporation for the commercial banks is implemented.

B. Appa Rao and Kameswari Chinta (1994)²⁵ examine the overdue syndrome in the APSFC. The problem of increasing overdues is the most complex of all problems of the DFIs. Further, the consequences of overdues have been mounting year by year and have been steadily eroding the financial soundness of the FIs. Everything possible should be done to reduce the high magnitude of overdues and suit-filed debts. The study suggests a more effective management of the same for the successful existence of the DFIs.

S. Sunil Poshakwale (1993)²⁶ articulates the most serious problems confronted by the SFCs is the recovery of the principal sum and interest from the borrower units. The study also analyses the portfolio decisions and inter-institutional performance of the SFCs. In his opinion, the SFCs have to diversify their schemes of assistance and other activities. He concludes that notwithstanding the changes in the financial and economic policies of the

Government, the SFCs have not been able to play a better role for the industrial and economic development of the country.

R. Manohar (1993)²⁷ evaluates that the increasing amount of overdues is a matter of serious concern to the banking industry. Overdues have adversely affected the functioning of the SFCs. Their recovery performance was far from satisfactory. Overdues have increased over the years as the recovery process has not been given the importance it deserves. The situation has questioned the financial soundness of the SFCs. Their ability to diversify the schemes and to give fresh credit was considerably affected. The study suggests for having integrity in lending and adherence to the business principles on the part of the SFCs to make their business fruitful. Manohar considers that it is not good to sacrifice cardinal business principles at the cost of welfare aspects. Overdues of the SFCs can be reduced if more vigilance is exercised in the post-disbursement supervision and follow-up of the operations of the assisted units.

C. R. Rangaswamy (1990)²⁸, in his article on 'Loan recovery by SFCs', explores the possibilities of applying provisions of various sections under the SFCs Act to check the mounting overdues. In his opinion, there should be firm follow-up and overseeing of the performance of the assisted units. A separate department to deal with the timely implementation of the project and repayment of loans should be created. Moreover, there should be a special arrangement with adequate staff to identify and report defaults on time.

Rangaswamy recommends the introduction of computers and Management Information System for analytical purpose.

S. Akram (1987)²⁹ in his article 'SFCs striving for dynamic developmental finance of small enterprises' views that the SFCs have failed to finance the SSIs as and when required. He finds out that mounting of overdues has unfavourably affected the functioning of DFIs. In his opinion, delays in implementation of the projects and industrial sickness are the major reasons for the increased overdues. Akram concludes with the remark that the increasing overdues have considerably checked the resources available to the SFCs so that they could not recycle the available sources of funds.

S. Kumar and Neera (1987)³⁰ try to explain the effects of Sections 29 and 31 of the SFCs Act which pertain to recovery norms of dues. The study reveals that the total recovery under both Sections in respect of security offered is rather small. It is more under Section 29 than under Section 31. They opine that persuasion for repayment will do better than legal actions.

R. R. Gupta (1987)³¹ in his article, 'Financing of Decentralized Sector by SFCs' opines that framing of new performance indicators for evaluating the performance of the SFCs in the promotion of SSI sector is essential so as to enable them to push up the decentralized industrial sector of the country. He favours a change in the evaluation of financial assistance. In his opinion, it is possible if encouragement of artistic activities in rural areas and generation of employment opportunities are preferred to mere 'extension of credit'. Gupta

also opines that the annual report of the FIs should have a separate chapter with detailed information of such performances.

Rakesh Kumar (1986)³² in his article on 'Performance indicators of SFCs' analyses the performance of the SFCs during the period from 1980-'81 to 1984-'85 with respect to sanction, disbursement, etc., of loans. He holds that the performance of the SFCs in this period was better. However, the study reveals that owing to sickness in small-scale industries they were confronted with serious recovery issues.

Ramakrishna Sarma (1982)³³, in his work on industrial development of AP, examines the pattern and structure of the industrial development of AP. It is analysed in the context of financial assistance extended by different State-level development financial institutions, including the APSFC. The study concentrates on the assistance to units of backward areas. In his opinion, the DFIs' assistance for industrial development in the backward area is purely inadequate. Sarma finds very low disbursement ratio in the case of backward districts and insufficiency of working capital in many of the aided units. He concludes stressing the need for greater integration of the functions of the APSFC and commercial banks in the State. He also recommends a structural change in the SFCs Act so as to make them better performers in industrial financing.

S. L. N. Simha (1976)³⁴ makes a study on the functioning of the SFCs as a group and also about the Karnataka State Financial Corporation. He also

gives a brief account of other State-level development financial institutions and the term-lending operations of commercial banks. Besides, the study examines various aspects of development banking as well.

B. R. Agarwal (1966)³⁵ examines the role of the Rajasthan Financial Corporation in financial assistance to the industries of Rajasthan. In an analysis of the number of applications sanctioned as a percentage of the applications received, he discloses that the lion's share of applications was rejected for reasons such as high security margin, complicated procedural norms, etc. Agarwal insists on having liberalised security norms, simplified procedures and friendly approach on the part of the officials of the institutions towards the borrower units.

C. Texts

T. Satyanarayanan (1989)³⁶ evaluates the share of the APSFC in extending financial assistance to the SSIs in AP. The study also covers the performance of the Corporation in the fulfilment of the objectives set before it by the government and considers how could it revamp the policies. Satyanarayanan stresses the need for evolving some criteria for financial institutions to follow in their lending activities.

K. Ramakrishna Sharma (1986)³⁷ in his work 'Financial Institutions and Regional Development in India' makes a study on the region-wise assistance of the SFCs. He views that rather than assisting the units of some

preferred regions, the SFCs have to assist the units located in all regions in the respective States.

D. Reports

Report of the IDBI Working Group (1978)³⁸ on reduction of arrears of the SFCs examines the issues of non-payment by the borrower units. The study lists various factors responsible for such defaults. Accordingly, organisational deficiencies of the SFCs' weak system of quality appraisal of loan application, insufficient post-sanction supervision of the performance of the beneficiary units, non-enjoyment of the advantage of the provisions of credit guarantee scheme for the beneficiary units, etc., are found to be the main obstacles leading to sickness of such units. The study opines that the rate of interest charged on working capital assistance schemes of the SFCs is lower when compared to that of commercial banks. This is proved to be the sole reason for deliberate default by the units. The report suggests various measures to check the non-repayment of loans.

The Reserve Bank of India (1972)³⁹ appointed the commission headed by K.N. P. Ramanujam to review the resource position of the SFCs and the cost of raising them; secondly, to examine and suggest modifications with relevant statutory provisions of the SFCs governing mobilisation of resources; thirdly, to study the performance of the SFCs with particular reference to their ability for repayment of statutory requirements and make suggestions to improve their profits and reserves. It made certain worthy

recommendations which were accepted and incorporated in the SFCs Act and implemented. Lowering the margin money needs of technical entrepreneurs, measures for structuring the capital resources of the Corporation, raising of ceiling limits of borrowing, etc., were some of the recommendations.

The Reserve Bank of India (1964)⁴⁰ conducted a study through its commission chaired by K. C. Mitra to report on the functioning of the State Financial Corporations. Perhaps, this may be the first study particularly undertaken on the functioning of financial corporations in India. The commission reviews the functions of the State Financial Corporations in the light of the policies and procedures followed by them. The role of the SFCs in the industrial process is also examined here. Further, the committee evaluates various factors responsible for the weak performance of the SFCs in extending financial assistance to small industries. It recommends the strengthening of the capital structure of the corporations and an interest free assistance to suit the particular situation. These were found to be better and later included in the SFCs Act.

Area of Study - 3 : All India DFIs

A. Doctoral Theses

V. I. J. Madhu (1989)⁴¹ examines the performance of management of term-lending institutions with special reference to the IDBI and the IFCI. An analysis of the performance of these corporations in the accomplishment of their objects is also done in the study. In his opinion, in terms of management indicators, the performance of both the institutions has been satisfactory.

Madhu suggests that institutions of this kind have to give top priority for improvement of their machinery in mobilizing internal sources, in professionalising the management to have a better management culture. Besides, these institutions should serve as catalytic agents for the attraction of private external resources, minimization of administration costs and self-evaluation.

K. Ramakrishna Sharma (1986) ⁴² in his study entitled 'Role of Financial Institutions on the Industrial Development of Backward Areas' makes an empirical analysis on how the institutional assistance has flowed to a few developed States and to a few backward areas of the developed States. At the macro level, the study explains the flows of assistance of IDBI to a few districts of AP.

B. Seminar Papers and Articles

P. D. Jeromi (2003) ⁴³ examines the share of the AIFIs' credit disbursement in Kerala for five years from 1996-2001. Accordingly, the share amounts only to 1.5 per cent. This is too low to be justified. The State is in need of more investment in infrastructure, especially in rural infrastructure.

P. K. Jain (1992) ⁴⁴ makes a study on the working of the IFCI and evaluates that sound financial management of the reserves in terms of profitability and proper recovery of funds from the borrowers determine the success of FIs. Default by borrowers creates business risk for the Corporation. Prompt recovery of funds is far significant though a certain level of default is

inevitable in an uncontrolled and energetic development context. Non-recovery emanates from uncertainty about prices, sales volume, effectiveness of advertisement campaign, competition from substitute products, problems associated with procurement of raw materials, cost of raw materials, cost of production, etc. In his opinion, the IFCI should enforce a satisfactory proportion of equity capital while sanctioning assistance to projects.

P. K. Jain (1988)⁴⁵ examines the performance of the Industrial Finance Corporation of India and views that the institution has done well for the industrialisation of the nation. However, in his opinion, huge overdue is the main thing that ails the functioning of the Corporation.

B. N. Adarkar (1966)⁴⁶ examines the performance of the Industrial Credit and Investment Corporation of India. He views that the Corporation has not succeeded well in all its efforts in the development of industries in India. It has to go far ahead in achieving its primary object, i.e., provision of foreign currency loans to industrial projects.

V. V. Chari (1965)⁴⁷ examines the functional aspects of the Industrial Development Bank of India. He evaluates how far the IDBI has succeeded in its efforts as an agent of industrial finance. He views that this development bank has to enlarge its scope of assistance by way of indirect participation in the finance of industrial units.

Shirely Boskey (1959) ⁴⁸ analyses the problem and practice of development banks. Accordingly, the success of financial institutions rests on competence of the management. He states that a bank can perform well only if it has a competent management despite inadequacies in its original concept. The Chief Executive Officer being the premier of management hierarchy, his activities are vital for the institution. The study lays emphasis on strengthening the efficiency of management of development financial institutions.

P. C. Bhattacharya (1958) ⁴⁹ analyses the working of the Industrial Credit and Investment Corporation of India Ltd. ever since its establishment on 5th January 1955. He views that in spite of the intervention of the Corporation in industrial finance, industries of the remote areas are still far in availing the assistance.

C. Reports

The IDBI (1980) ⁵⁰ report on development banks in India analyses the multifarious problems associated with overdues and recovery of the DFIs. The study reveals that over the years, recovery aspect has not been dealt with the deserving seriousness which has in turn adversely affected the overall performance of the institutions. The study group was asked to suggest recommendations and amendments to the existing law relating to overdues and recovery performance. The recommendations made include strict compliance of the provisions of Section 24 of the SFCs Act and the application of revenue recovery proceedings of the State Revenue Recovery Act.

The IDBI (1977)⁵¹ report comments on the necessity of entrepreneurship development of the backward areas. Industrial dispersal as well as development of backward areas has to be the policy of national development plans as also the lending policies of industrial finance institutions.

Area of Study - 4 : Commercial Banks and Other FIs.

A. Doctoral Theses

K. Geetha Devi (2000)⁵² comments on the role played by the banking institutions for the industrial development of Kerala. Her study gives a little consideration to the role played by the DFIs in this sector.

K. Sasidharan (1993)⁵³ analyses the progress of banking in Kerala since Independence. The contribution of banks to industries is examined in general. He finds that the present stage of industrialisation of the State is indebted to the banks to a great extent.

A. Reghurama (1991)⁵⁴ evaluates the difficulties confronted by the SSI units in availing of credit from banks. He holds that the commercial banks have to follow a liberal approach in extending credit to SSIs. At the same time, Reghurama examines the problems faced and the procedures adopted by banks in giving credit to industries.

Prahalad Kumar Sumen (1986)⁵⁵ examines the overall performance of the Bihar State Industrial Development Corporation (BSIDC). He reveals

the difficulties faced by the Corporation with regard to lending and the repayment of loans.

B. M. Phil. Dissertations

C. S. Mohan Kumar (1984)⁵⁶ analyses the role of commercial banks in general and of the State Bank of Travancore in particular in financing the SSI units in Thiruvananthapuram district. He views that the SBT has not succeeded in its target for want of co-operation among various governmental and other financial agencies.

C. Seminar Papers and Articles

L. M. Jitendra Mahakud and Bhole (2005)⁵⁷ examine the slants of commercial bank financing of the industries of public and private sectors during the period 1966-2002. Their study is based on the information pertaining to 500 units from across India. The researchers find that private sector industrial units highly depend on institutional financé when compared to the public sector units. They opine that the institutional financing to industries has to be improved.

Niti Nandini (2005)⁵⁸ identifies that financial institutions find it difficult to provide credit to Self-Help Groups, for lack of security, non-availability of the operatives and general disinterest of the staff in handling tiny accounts in high volumes. This attitude of the financial institutions has to be changed towards industries established by the small Self-Help Groups.

R. B. Bruce (1988)⁵⁹ makes a penetrating enquiry into the difficulties associated with the evaluation of loan collection performance of the special term credit programme for small-scale enterprises in Indonesia. The study identifies that the programme managers and banks were having access to ample data on collection performance. These data did not serve the requirements of the management. Bruce puts forth some measures of adequate data and fruitful indicators of portfolio quality, collection rates, and ultimate cost by means of bad debts. He also analyses both technical and institutional aspects of the collection problem.

S. M. Jha and P. K. Verma (1981)⁶⁰, in the article 'Commercial Banks' Credit Management and the Lending Philosophy' pinpoint the valuable role of the SFCs in extending credit to the SSIs and suggest the formulation of a new policy by the SFCs to induce the entrepreneurs with the final objective of bringing about a balanced economic development. The study also considers that the time lag between sanction and disbursement of loan was a hindrance for the smooth implementation of the projects. They strongly suggest the reduction of this gap of time. Further, they recommend to build a debt – equity ratio of 88%-85% to 12%-15%.

M. Y. Khan and Preet Sing (1979)⁶¹ evaluate the role of commercial banks in extending industrial finance. They look into the financing by way of term lending and underwritings. In their opinion, the commercial banks do not serve to the maximum possible extent in financing the industries.

D. Texts

P. Sampat Sing and S. Sing (1999)⁶² view that development of economy is possible only if the banks perform efficiently. Nationalisation of banks has strengthened them so as to enable to cope with the changing needs for finance.

S. K. Bansal (1988)⁶³ analyses the contributions of rural development banks towards industrial development. He assesses the efficiency and efficacy of development banks in the field of large and medium industries. Bansal also studies the financial policies, procedures and operations of development banks. He makes an empirical evaluation of the ability of the DFIs in directing funds towards small and large industries. In his opinion, these institutions do not perform well.

Sudharshan Lal (1987),⁶⁴ in his study clarifies that the commercial banks and other financial institutions have liberalised the norms for extension of credit to small units in the wake of social control through nationalisation of major banks and implementation of the Twenty Point Programme.

Inderjit Sing and N. S. Gupta (1977),⁶⁵ in their work 'Financing of Small Industries', explain the contributions of commercial banks in financing small industries and the performance of such industrial units of Delhi in particular and of the whole country in general. In their opinion, the commercial banks declined in inducing the unorganised small artisans and small factories to enjoy the financial assistance offered.

K. T. Ramakrishna (1962)⁶⁶ makes a study on both financial and the non-financial assistances provided by institutions like the State Financial Corporations, the State Bank of India and other commercial banks. He makes a special analysis of the direct credit extended by the government in compliance with the Industries Act. Ramakrishna holds that the DFIs play vital roles in the industrialisation of the country.

E. Reports

The Reserve Bank of India (2007)⁶⁷, in its annual report on 'Trends and Progress of Banking in India', examines the issues of smooth flow of bank finance to the Non-Banking Financial Institutions in order to develop them into a financially strong sector with improved skills and technology. It further comments that the NBFIs form a diverse group not only in terms of size and nature of incorporation, but functionally as well.

V. A. George (2004)⁶⁸ observes that the Non-Banking Financial Institutions have been acknowledged as the external providers of internal finance. The NBFIs make excellent contribution of finance to industries.

The Kerala State Industrial Development Corporation (1971)⁶⁹ appointed a committee to investigate into the problems associated with institutional finance to industries. The committee was of the opinion that funds were being diverted to other channels by the entrepreneurs.

Area of Study - 5 : Comparative Studies on Various FIs.

A. Doctoral Theses

Jayanta K. Nanda (2001)⁷⁰ analyses the role of State level development finance institutions in Orissa since Independence. The researcher holds that the FIs have done much for the industrial progress of the State. However, they could not exploit the better industrial atmosphere prevailing in the State. Also the FIs do suffer from various difficulties like overdues and recovery problem of loans.

Sahir Ahmed Ansari (1996)⁷¹ makes a comparative study of the various AIFIs and SLFIs. He views that during the last 20 years, financial assistance extended by the DFIs has increased at a significantly high rate. Such increased assistance paved the way for industrial units to depend largely on the FIs. The study reveals that the IDBI and the ICICI outstripped the average growth rate of sanction, while SFCs have fallen behind. But, on the other hand, regarding the time gap between sanction and disbursement, it is relatively narrower for the SFCs than for the IDBI and the ICICI. Further, Ansari evaluates that private sector industrial units are the largest beneficiaries of assistance of financial institutions. He finds that the SFCs prefer financing of new and the consumer goods industries whereas other FIs assist both existing and new ones. The AIFIs have confined their assistance to a few developed and large States and almost neglected the north-eastern States. The study lays

emphasis on having a shift in this attitude of the FIs and to cover the least developed States also.

Sreelekha Nair (1993)⁷² makes a comparative study of various State Industrial Development Corporations (SIDCs). She views that the role played by the Kerala State Industrial Development Corporation is of vital importance in the industrialisation of the State. Because of the intervention of the KSIDC, the rate of industrialisation in backward areas is increasing year by year. The timely assistance from the KSIDC has helped the industrial units to tide their financial crisis over. However, repayment of loan is not done properly and this situation has adversely affected the functioning of the Corporation. She suggests that the Corporation should not be passive with the defaulters. For this, an effective feedback system should be developed. Further, a rehabilitation cell may be opened for close monitoring of the projects of defaulting units.

S. Barbora (1992)⁷³ studies the impact of bank credit on industrial development in Assam. In his opinion, both AIFIs and SLFIs have come to be the gap-fillers. They do better to compensate the relatively slow growth of the State of Assam.

P. K. Rao (1989)⁷⁴ investigates the performance of all State Industrial Development Corporations in India with the intention of knowing the extent to which the objectives of the corporations are accomplished. The study identifies

various causes for good or poor performance of the corporations and suggests better methods for improving the overall performance.

C. P. Sharma (1989)⁷⁵ views the development bank as an organic body that acts and reacts to the needs of its environment. He has made a study on the functioning of the Punjab State Industrial Development Corporation (PSIDC) and the Punjab Financial Corporation (PFC). Sharma finds that these institutions have succeeded in creating a new class of entrepreneurs and spreading the industrial culture to newer areas and weaker sections of the society.

Vinod Batra (1986)⁷⁶ makes an attempt to stress the recognition of the catalytic role of financial agencies providing medium and long-term funds for industrial development. The study consists of a diagnostic and comparative analysis of two State-level DFIs, viz., Maharashtra and Rajasthan Financial Corporations. It is found that the Maharashtra Financial Corporation performs better than the Rajasthan Financial Corporation.

B. Narayanan (1964)⁷⁷ in his work entitled 'Financing of Industries in Bihar' points out the various financial problems confronted by the industrial development banks at the State level to assist the industrial units.

B. Seminar Papers and Articles

Chand Bidhi and R. Gupta (1991) ⁷⁸ examine the contribution of various financial institutions towards the industrial development of Himachal Pradesh. In their opinion, a promising inclination has not been visible in the funding of various financial institutions in the State.

J. V. Murthy and D. B. Reddy (1988) ⁷⁹ examine how the defaults by units affect the functions of FIs both in normal situations and in an inflationary situation. They make a comparative study between the All India Financial Institutions and the State Financial Institutions in the two situations: normal and inflationary. In their opinion, in these two extreme situations, the return accruing to FIs varies from 8.3% to 1.2 % when the borrower units adhere to the repayment schedule.

J. D. V. Pischke (1988) ⁸⁰, in his study on measurement of the loan repayment performance, explores various reasons for the importance of portfolio performance and quality assurance. He also explains the issues that are raised by these considerations. Pischke tests the usefulness of these criteria by a survey of 10 development financial institutions which borrowed funds from the World Bank in 1985 and by interviewing 25 project officers. According to the survey, it is difficult to compare and contrast the financial statements of various DFIs for want of consistency in their preparation and maintenance. The study recommends maintaining a uniformity in this respect.

V. V. Chari (1970)⁸¹ analyses both mobilisation and utilization of the financial resources of the IFCI and SFCs. He finds that the lion's share of such funds is diverted towards the industrialisation process. However, no diversified schemes are offered by these Corporations.

V. V. Chari (1969)⁸² looks into the lending procedure of the IFCI and SFCs. He views that these corporations have to do more so that industrial finance is not diverted to the same industries of the same region. Chari also stresses the bifurcation of schemes of assistance of these Corporations.

Area of Study - 6 : Institutional Finance and Industrialisation

A. Doctoral Theses

V. Ambilikumar (1989)⁸³, in his study on 'Working of Small Industries in Kerala with Special Reference to Trivandrum District', analyses the financial, production and marketing aspects of small-scale units. He views that investment in fixed assets in the SSI units was declining and such units faced poor management of working capital. This menace can be effaced through the proper intervention of DFIs.

M. S. Agarwal (1987)⁸⁴ evaluates that the FIs decline to extend appropriate amounts of loan to SSIs. He stands for a change in the attitude of the FIs. They should be more social, practical and flexible. They should do everything possible to enable the loanees to overcome financial constraints.

Redhey Shyam Sing (1986)⁸⁵ critically examines the various aspects of functioning of the FIs for the development of the small-scale sector. He also analyses various institutional sources of finance to the small-scale industry and tiny units.

R. Natarajan (1983)⁸⁶, in his doctoral thesis, verifies the trends in institutional financing to SSI units in Andhra Pradesh for a period of one decade from 1970. He views that the intervention of these institutions in financing has brought about considerable progress in the industrialization process.

Nikhil Bhusen Dubey (1981)⁸⁷ analyses the role of the government and various institutional agencies in developing and financing the SSIs in Cachar district in particular, and the State of Assam in general. He views that the DFIs make satisfactory contributions for industrialisation. However, in his opinion, such institutions have to widen their performance to attune to the emerging needs of the borrower units.

Prabhu N. Sing (1974)⁸⁸ examines the financial and non-financial contributions of industrial development banks to the private corporate sector in the context of centralised economic planning.

M. L. Sharma (1973)⁸⁹ studies the role of the National Level Development Financial Institutions in industrial financing. The study also discusses the contributions of the State Financial Institutions in financing

industries in Bihar. In his opinion, the DFIs should also act as guide, philosopher, and promoter of industries. Sharma recommends the setting up of a Small Industrial Bank for the State.

Suresh Chandra Jain (1971) in ⁹⁰his doctoral thesis analyses the problem of institutional finance for small industries in Uttar Pradesh. He reviews that financial institutions have to adjust their lending policies in compliance with the requirements of the small-scale sector. The investigation is confined to a case study of Meerut district.

Mohammed Sayeed (1963) ⁹¹ evaluates the extent of participation of the co-operatives in the industrialisation process. In his opinion, a special financing institution is necessary to finance the SSIs.

B. Seminar Papers and Articles

P. Mehta and V. K. Mehta (1995) ⁹² pinpoint the necessity of diversification of the schemes of assistance by the DFIs. In a developing country like India, where the pressure of poverty and unemployment is so intense, industrialisation has to be attained in a considerably shorter period of time. Development of industry in backward areas can be achieved only through dispersal of industries and diversification of schemes of assistance of DFIs.

K. C. Reddy (1990) ⁹³ views that the bank finance in particular and institutional finance in general have contributed considerably to the promotion

of small industries. However, he is of the opinion that lending institutions should be more practical and flexible in their attitude so as to enable the beneficiary units to cope with their financial needs.

G . Townsley (1988)⁹⁴ lays emphasis on the need of training the officers of financial institutions in marketing, production and social interactions other than financial. In his opinion, poor management and inefficient initial evaluation are often the reasons for project failure. The study reveals that perpetual monitoring and problem identification help reduce such failure. He suggests the DFIs to have keen observation and efficient management to undertake this mission.

William Diamond (1984)⁹⁵ explores whether the DFIs take initiative to locate, develop and finance such entrepreneurs and project managers, who, with their leadership abilities, vision and innovativeness, would add to the qualitative as well as quantitative thrust of industrialisation. In his opinion, no such efforts are seen on the part of the DFIs.

I. M. Pandey (1983)⁹⁶ views that it is the promotional aspect of the functions of a development bank which makes it a real catalyst of development rather than a conduit of financial resources. In his opinion, the norms of financial assistance of the DFIs should be formed from the promotional and financial angles of the beneficiary units.

R. K. Ray (1981)⁹⁷ evaluates that the development banks have not succeeded in bringing about a regional development of industries. Such financial institutions favoured the status quo in the pattern of entrepreneurship and followed the ventures of the conventional entrepreneurial class. Industries were confined to some traditional metropolitan cities and their hinterland. Western India, in particular has been the most preferred field of operation of the DFIs with the exception of some large projects at some other centres in the country.

B. M. Jani (1981)⁹⁸, in his study on development finance for manufacturing business in Gujarat, examines the relationship between the growth of financial institutions and the growth of industrial units. His study is with special reference to the Gujarat SFC. The study points out the role of the GSFC and similar lending institutions in providing large and medium-term finance to industrial units. In his view, there is geometric progression in the growth of industrial units because of the growth of financial institutions.

Vadilal Dagli (1974)⁹⁹ examines how far the concept of development banking benefits the poor. In his opinion, in a few areas of economic activity in India, since Independence, there has been some conspicuous development owing to the existence of various development banks.

The Management Development Institute (MDI) (1973)¹⁰⁰, in a case study on institutional finance of certain selected States in India, examines the role of governmental and institutional agencies in the development of small

manufacturing enterprises, to evaluate the effect of financial and non-financial assistances given to the small-scale industrial enterprises. The States chosen for the study include Punjab, Himachal Pradesh and Uttar Pradesh. The study reveals that institutional financing has succeeded to a certain extent in industrialising these States.

Y. S. Kedare (1971) ¹⁰¹ analyses the role of IFIs in promoting the development of backward regions. His view is that the IFIs have played better to locate the industrial potential in the backward areas and to motivate the small entrepreneurs there.

L. C. Gupta (1969) ¹⁰² views that the government sponsors various Development Financial Institutions with a view to providing medium and long-term loans to industry. The DFIs can be regarded the corner-stone of the modern industrial financing system in India because all such institutions are of post-Independence evolution and have attained a high predominance in financial assistance to industries in a very short period of time. Further, these DFIs have developed as very promising influence on the industrial finance networking of the country. He presents an integrated picture of the changing pattern of industrial finance in the country consequent on the growth of institutional financing system.

C. Texts

N. Kumar and R. Mittal (2002) ¹⁰³ examine the problems faced by Indian economy for want of sufficient industrial finance. In their opinion, there is acute shortage of capital to finance the Indian industries regardless of their size and nature.

R. M. Srivastava and Divya Nigam (2001) ¹⁰⁴ analyse the performance of various financial institutions which include investment banks, commercial banks and development banks. The role played by various development banks in the promotion of industries in the country is conspicuous. They call for a re-defining of the vision and mission of the Indian Financial Institutions. The objects of such institutions need be re-set so as to enable them to employ new financial instruments.

N. K. Sharma (2000) ¹⁰⁵ evaluates the contributions of various financial institutions in the economic growth of India. He holds that better prospects for our country can be ensured only if a balanced development of the economy is attained.

Saundariya Borbora (1999) ¹⁰⁶ analyses the role and experience of development banks in India. The author views that the creation of the special machinery of term-lending institutions at the initiative of the government is indeed the most outstanding development in the sphere of industrial finance and that it can rightly be termed as the cornerstone of the financing mechanism in India.

H. R. Suneja (1990)¹⁰⁷ views that the DFIs along with the commercial banks have done excellent job during the post-Independence era in placing India in the industrial map of the world.

P. N. Misra (1988)¹⁰⁸ explains the various factors that encouraged the establishment of industrial units by different entrepreneurs. Accordingly, two factors, viz., internal and external, are identified. The former are factors which make a tendency for application of entrepreneurial abilities while the latter involve the initiative of implementing the idea of business. Finance and role of financial institutions are included in the external factors. The study also covers aspects such as policies and programme of the DFIs, new criteria for assistance, form of assistance, performance of entrepreneurs and the problems confronted by them with respect to finance.

Vasant Desai (1988)¹⁰⁹ analyses the importance of industrialisation for economic progress. His work relates to the issues and options of development banking in general. In his opinion, the leading development banks play a key role in channelising the investment into industry. Every major industrial house in India depends at one stage or other on the support of one (or more) financial institution(s).

Suraj B. Gupta (1982)¹¹⁰ evaluates that the institutional framework for industrial finance has been designed to strengthen the industrial development of India. In his opinion, the beneficiaries of various DFIs consist of existing

and many new enterprises. He also notices that the distribution of industrial finance over industries is getting diversified over times.

H. S. Parekh (1978)¹¹¹ evaluates the role of DFIs and other State agencies in extending financial aid to the SSIs and identifying very clearly the attitude of indifference in meeting the needs of the tiny sector. He points out that the DFIs have to attune their lending scheme and policies in conformity with the requirements of the small sector in general and the smaller among the small-scale units in particular.

P. N. Sing (1974)¹¹² points out that the development bank in a planned economy like India has established itself as an essential instrument for rapid development of the economy.

R. M. Saksena (1970)¹¹³ views that the gaps which have been found to exist in the field of industrial finance in India between the demand for and supply of finance could be bridged to a large extent by the functioning of various development financial institutions. Saksena suggests a revamping of the policies and procedures of the lending schemes of the DFIs in such a manner that the needy units can avail assistance as and when needed.

T. V. Sethuraman (1970)¹¹⁴ views that the provision of adequate industrial finance has resulted in the economic development of India. He also identifies the role played by various financial institutions in bringing about industrialisation and economic growth.

S. K. Basu (1965) ¹¹⁵ stresses the role of financial institutions in diversification of industries.

William Diamond (1957) ¹¹⁶ establishes that the existence of the development banks is inevitable for the promotion of private enterprises, which form an integral part of the economy.

S. K. Basu (1953) ¹¹⁷ opines that every financial assistance given by banks is of long-term nature. He states thus: "The short-term character of a bank credit is indeed one of the fictions of 'Banking Theory' and rests on the prejudice that banks essentially lend their depositors' money whereas their essential functions lie on their creation of money, not in acting as intermediaries between borrowers and depositors. Moreover, even the most proper credit for working capital purpose is short term only in a legal sense. In fact it is as long lasting as if it were granted once and for all, instead of being renewed continually."

D. Reports

S. S. Nadikarami (1990) ¹¹⁸ views that the DFIs play a very active promotional role in the field of industrialisation. They perform with the main objectives of speeding up rapid industrialisation, rural development, etc.

The Reserve Bank of India (1959) ¹¹⁹, in its report on the proceedings of the seminar on 'Finance of Small-Scale Industries in India', unveils various reasons why the SSIs borrow from the money-lenders instead of availing the

assistance from various institutions. Documentation and other formalities of the institutions are found to be the major reasons for this.

Conclusion

The review of literature does not reflect a creditable role played by the KFC in the industrialisation of the State. Almost all studies have made only macro-level analyses of the functions of the KFC and other FIs. The country is passing through a period of fast industrial development which is not reflected in the case of industrially backward States. DFIs like the KFC have a predominant role to play to spread industrialisation in the backward districts of Kerala. It is highly important in a period like this when two AIFIs, viz., the ICICI and the IDBI have ceased to operate as DFI. Further, the ongoing global recession calls for an enquiry into the necessity of survival of various State-owned DFIs. A wide research gap is visible here. It calls for a varied way of thinking. The present study is undertaken against this background. It is made in a different direction and it represents an endeavour to bridge the important gap in the existing literature.

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CHAPTER III

INDUSTRIES IN KERALA AND THE ROLE OF PROMOTIONAL AGENCIES FOR INDUSTRIAL DEVELOPMENT IN KERALA

- III. 1 INTRODUCTION**
 - III. 2 HISTORY OF INDUSTRIAL DEVELOPMENT OF
KERALA**
 - III. 3 KERALA'S INDUSTRIAL BACKWARDNESS**
 - III. 4 INDUSTRIES IN KERALA : PRESENT SCENARIO**
 - III. 5 SPATIAL DIMENSION OF INDUSTRIAL SECTOR IN
KERALA**
 - III. 6 STRUCTURE OF THE INDUSTRIAL SECTOR OF
KERALA**
 - III. 7 INDICES OF INDUSTRIAL PRODUCTION**
 - III. 8 DEVELOPMENT FINANCIAL INSTITUTIONS FOR
INDUSTRIAL FINANCE**
 - III. 9 EVOLUTION OF DEVELOPMENT BANKING IN INDIA**
 - III. 10 INSTITUTIONS FOR INDUSTRIAL FINANCE IN INDIA
AND THEIR CONTRIBUTIONS**
- CONCLUSION**
- REFERENCES**

CHAPTER III

INDUSTRIES IN KERALA AND THE ROLE OF PROMOTIONAL AGENCIES FOR INDUSTRIAL DEVELOPMENT IN KERALA

III. 1 Introduction

The present chapter is a review of industrialisation in Kerala and the role played by various promotional agencies in the process of industrialisation. The position and prospects of the industrial growth of a country can be realised only if the trends in the industrial sector over a reasonable period of time are analysed. Ever since Independence, India has been creating a diversified and broad-based industrial sector as it has recognised the necessity of industrialisation as a means to accomplish the rapid and constant growth and prosperity of the nation. Manufacturing industry has proved to be paving better roads of production and its productivity is comparatively higher than that of the traditional agriculture sector. By this time, however, in respect of the industrial sector, considerable improvement in performance has been observed in India across all the major sub-sectors of industry including manufacturing, mining and quarry, electricity, capital goods, basic goods and consumer goods. The role of industries in strengthening the Indian economy is highly predominant. The Indian economy recorded an average growth rate of 8.5% of current prices for the period from 1999-2000 to 2007-'08¹. The GDP growth rate mounted to 9.4% during 2006-'07 from 9.0% level of 2005-'06. This

contribution was mainly due to the sustained expansion in industry and services. Real GDP growth during the tenth plan period (2002-2003 to 2006-2007) averaged to 7.6% , the highest average rate of growth during any plan period so far ². However, the growth of GDP evolving from the industrial sector had recorded a double digit growth of 11.5% during the year from 8.2% in 2005-'06. This is accounted as the highest growth since 1995-'96.

The major contribution to the industrial growth during the period is from the manufacturing, mining and electricity sectors. The share of each major sector is depicted in Table 3. 1.

Table 3.1

Contribution of Major Industries to Economic Growth

Sl. No.	Industries	Share
1.	Capital goods sector	18.2%
2.	Service sector	11.0%
3.	Basic goods sector	10.3%
4.	Consumer goods sector	10.1%
5.	Infrastructure sector	08.8%
Total		58.4%

Source : Economic Review 2006, State Planning Board, Government of Kerala

Table 3.1 reveals that a major share amounting to 58.4% for the industrial growth of the country is from 5 major sectors, viz., capital goods, service, basic goods, consumer goods and infrastructure.

III. 2 History of Industrial Development of Kerala

The historical development of industries in Kerala dates back to the era of British colonialism, during which only traditional industries like handloom, mat-weaving, bamboo products, etc., prevailed. Industries like coir, cashewnut, tiles, etc., were also there in the earlier period. Historically, Kerala never had a trading community endowed with better capital, as in some of the north Indian States. While the Marwari and Benia communities were the forerunners of industrialisation in Gujarath and Rajasthan respectively, it was the Agarwal community that initiated the industrialisation process in Madhya Pradesh. The position of Kerala was not hopeful at all as it did not have such a trading community. Instead, it invited trading communities from other States to undertake industrial activities in the State. It was in the 19th century that the Gujarati traders were invited to Alappuzha by the then Diwan of Travancore Princely State, Sir C. P. Ramaswamy Iyer. Consequently, some industries were initiated. Units established thus include: Fertilisers and Chemicals Travancore Ltd., Travancore Sugars and Chemicals Ltd., Ogale Glass Factory and Rayons Perumbavoor. Industries like coconut oil, textiles, etc., were initiated by 1900. The Malabar area was characterised by industries like coconut oil, soap, tiles, beedi, etc. However, Kochi had been facing an industrial slowdown for the past few decades.

III. 3 Kerala's Industrial Backwardness

Kerala is proverbially an industrially backward State in the country with low manufacturing activity. Factors like absence of a thriving trading activity by traditional communities, political instability, non-availability of raw materials, labour unrest, shortage of finance, lack of technical and managerial know-how, etc., are the setbacks for the industrialisation of the State. The industrial shyness of the State has invited the attention of many researchers and has attracted considerable debates and discussions.

Debates on Kerala's Industrial Backwardness : A Brief Survey

Dr M. A. Oomen³ studies the factors responsible for the migration of Kerala-based entrepreneurs to the neighbouring States or in setting up of their units there. In his opinion, it is the advantage of the lowest cost of production resulting from a variety of factors. Higher labour productivity, availability of cheap labour, etc., are the main reasons that developed a tendency for such migration. Out of 122 entrepreneurs who were asked whether labour in the State was manageable, when compared to Tamil Nadu and Karnataka, 114 (93 per cent) replied in the negative.

K. K. Subramaniam and P. Mohanan Pillai⁴ sought to question the general view that high wages and militancy of labour are the two main reasons for industrial stagnation in the State of Kerala. They perceive that factors like characteristics of labour, nature of trade unionism and quality of entrepreneurship are illogical and irrelevant in the contemporary outlook of

Kerala. The alleged inefficiency of Kerala's industries in terms of labour militancy, high wage cost and low productivity does not have much empirical basis. Their argument was centred on two types of factors, namely, regional and structural. Accordingly, the locational disadvantages and some facts of industrial structure as compared to industrially developed States are the factors responsible for Kerala's poor performance in industrialisation.

M. M. Thampy⁵ examines the impact of psychic factors in industrial investment. He views that, rather than debating on whether the industrial relation climate is empirically true or not, one has to analyse the past experience which may influence the perception more than the current realities. In his opinion, the intensity of unionisation and peculiarity of trade union culture and its behavioural pattern in Kerala determine to a large extent the investment climate and finally shape the prospects of industrialisation of the State.

Alice Albin⁶ views that regional factors have checked industrial progress in Kerala. In her opinion, if the regional factors had not been adverse, the structural factors should have, in fact, increased the rate of the industrial growth of the State above the all-India growth rate. She views that the two important factors, viz., labour disputes and wage rates have had an unfavourable impact on industrial development in the State. The main factors that sustain wage rate in Kerala are located to be the high disposable income on account of the high wage rates in the agricultural sector. This situation paves the way for a multivariate model of wage determination. Further, the

level of labour militancy in Kerala has been considerably higher than in other States.

Subramaniam and Azeez⁷ observe that Kerala's poor industrial performance is due to the structure of its industrial base which is lopsided or less diversified as it is still dominated by less prominent industry groups and lacks capital goods production.

P. Surendran⁸ states that absence of raw materials, especially metallic minerals is the most important reason for the industrial backwardness of Kerala.

Though the industrial relations scenario has registered considerable improvement in recent years, the State is not yet able to attract investment, presumably due to the bad image acquired over the years. However, attempts to attract the investors are being made in the State. The holding of the GIM at Kochi in 2003 and the proposed Smart City at Kochi are some of such efforts. As Table 3. 2 shows, Kerala could not attract considerable industrial investment in the post-liberalisation period.

Table 3.2**State-wise Industrial Investment Proposals (August 2001 – April 2004)***Letter of Indents + Direct Industrial Licences (Rs. crores)*

State	Nos. granted	Per cent	Proposed Investment	Per cent	Proposed Employment	Per cent
Andhra Pradesh	434	11.08	10715	9.64	79775	9.42
Assam	12	0.13	2433	2.19	4538	0.54
Bihar	33	0.84	1462	1.32	13674	1.61
Gujarat	438	11.18	21028	18.92	71799	8.46
Haryana	233	5.95	4318	3.89	63120	7.45
Karnataka	183	4.67	4887	4.40	54035	6.38
Kerala	67	1.71	2782	2.50	14326	1.69
Madhya Pradesh	141	3.60	3160	2.84	30163	3.56
Maharashtra	558	14.24	14567	13.11	129482	15.28
Orissa	37	0.94	5444	4.90	11882	1.40
Punjab	183	4.67	4887	4.40	54035	6.38
Rajasthan	97	2.48	1626	1.46	15455	1.82
Tamil Nadu	736	18.79	11273	10.14	129056	15.23
Uttar Pradesh	353	9.01	9752	8.77	97750	11.54
West Bengal	90	2.30	4047	3.64	19132	2.26

Source : SIA statistics, April 2004, Ministry of Commerce and Industry, Government of India, as reported in Economic and Political Weekly, July 10, 2004, p.3079

Table 3. 2 shows that Kerala was the fourth lowest among the major States in attracting industrial investment during August 2001 to April 2004. It

may be noted that other southern States are way ahead of Kerala in both proposed investment and employment.

The industrial backwardness of Kerala can not be explained in terms of one or two factors. A constellation of factors has contributed to it. Though the State is ahead of several Indian States in some of the factors that immediately matter for attracting industrial investment, it seems that the State is lagging behind them in some of the critical factors. This is evident from the study undertaken by the Confederation of Indian Industry (CII) across 18 States in India on the attractiveness of States in industrial investment, as can be seen from Table 3. 3.

Table 3.3**Kerala's Ranking in Investment Attractiveness
(Among 18 Indian States)**

Attributes	Kerala's rank
Law and order	1
Education and health expenditure	1
Social sector	2
Affluence	3
Infrastructure penetration	5
Investment attractiveness	5
General achievement	6
Finance	6
Labour	8
Investment climate	13
Overall Composite Rank	3

Source: CII-sponsored study on Investment Attractiveness as reported in Government of Kerala, Note on Investor Friendly Climate (presented to the Twelfth Finance Commission, December 2003, p.25)

Though Kerala has been rated as the third best in the country in the overall ranking, her ranks in investment climate and in labour are 13 and 8 respectively. This suggests that the negative perceptions, real or imaginary, will have to be removed to attract direct, private domestic, and foreign investments.

III. 4 Industries in Kerala : Present Scenario

Industrial growth recorded during 2000-'01 to 2007-'08 was positive except in 2001-'02 which registered (-) 4.44 per cent and (-) 2.88 per cent respectively at constant and current prices. The average growth rate for the period from 1999-2000 to 2007-'08 was 4.9 per cent and 8.5 per cent at constant and current prices respectively. The contributions of manufacturing sector to GSDP at constant and current prices are 8.02 per cent and 8.45 per cent respectively during 2007-'08 ⁹. Growth of manufacturing sector (GSDP) of Kerala from 1999-2000 to 2007-'08 both at constant and current prices are given in Table 3. 4.

Table 3.4

Growth of Manufacturing Sector in Kerala (GSDP)

Year	Contribution to GSDP (Rs. Lakhs)		Growth Rate (%)	
	At constant Prices	At Current Prices	At constant Prices	At Current Prices
1999-2000	666799	666799	-	-
2000-'01	680170	703404	2.01	5.50
2001-'02	649950	683278	-4.44	-2.88
2002-'03	680869	734199	4.76	7.45
2003-'04	718735	818580	5.56	11.49
2004-'05	753166	912523	4.79	11.48
2005-'06	805882	1009504	7.00	10.62
2006-'07	914367	197663	13.46	18.64
2007-'08 (p)	1014424	1372495	10.94	14.60

Sources : Dept. of Economic and Statistics (Economic Review p. 189 & 190, 2008) P.Provisional

III.5 Spatial Dimension of Industrial Sector in Kerala

A remarkable feature of Kerala's industrial scenario is the concentration of industries in certain districts. The spatial dimension of the industrial scene in Kerala can be analysed on the basis of district-wise distribution of Gross State Domestic Product (GSDP) from manufacturing at current prices. This is presented in Table 3.5

Table 3.5

**District-wise Distribution of GSDP from Manufacturing at Current Prices
2005-'06 (Rupees in Lakh)**

District	GSDP from manufacturing	% to the GSDP from Kerala's manufacturing
Thiruvananthapuram	115213	12.59
Kollam	42037	4.45
Pathanamthitta	10899	1.15
Alappuzha	54493	5.77
Kottayam	40480	4.28
Idukki	21797	2.31
Ernakulam	295818	31.30
Thrissur	87188	9.23
Palakkad	116770	12.36
Malappuram	40480	4.28
Kozhikode	45151	4.782
Wayanad	7785	0.82
Kannur	35810	3.79
Kasargode	31149	3.29
Total	945070	100

Source : Same as for Table 3.4.

Table 3. 5 shows that three districts, i.e., Thiruvananthapuram, Ernakulam and Palakkad, contribute almost 56% of the GSDP from manufacturing. The industrially backward districts of Idukki, Pathanamthitta and Wayanad together contribute only 4.28% of the GSDP. This shows that there is wide inter-regional disparity in the industrial development of Kerala. The State may have to introduce incentive schemes to attract industrial investment in these districts.

III. 6 Structure of the Industrial Sector of Kerala

For a still deeper understanding of the industrial scenario of Kerala, the composition of Kerala industries is analysed under the following heads: (1) Traditional Industries, (2) Software and Hardware Industries, (3) Micro, Small and Medium Enterprises (MSMEs).

III. 6. 1 Traditional Industries

The major traditional industries are handicrafts, handloom, coir and cashew. Each of these is described in some detail.

The handicrafts sector occupies an important place in the economy in terms of employment generation, growth of Gross Domestic Product, and conservation and fostering of tradition and culture. The major handicrafts of Kerala are ivory carving, bell metal casting, screw-pine and mat-weaving, bamboo and reed-weaving, cane work, coconut shell-carving, and straw picture making. There are four government agencies engaged in the

promotion of handicrafts industry. They are: the Kerala State Handicrafts Development Corporation, Bamboo Development Corporation, Kerala State Handicrafts Apex Co-operative Society Ltd., and Artisans Development Corporation.

In 2009, the coir industry alone generated employment for more than 5.86 lakh workers, of whom 80% are women. Both co-operative sector and private sector are active in the coir industry. Coir and coir products earned Rs.60,516.59 lakh worth foreign exchange during the period 2006-'07.

The handloom sector in Kerala employs about 1.80 lakh people and this industry stands second to the coir industry in terms of employment. The industry is dominated by the co-operative sector with 94% of the looms. The remaining 6% handloom units are owned by industrial entrepreneurs. The Kerala State Handloom Development Corporation, a Government of Kerala agency, is actively engaged in the promotion of the handloom sector. By the end of March 2007, there were 758 PHWCs consisting of 155 factories.

Both private entrepreneurs and the co-operative sector are active in the cashew industry of Kerala. Of the country's total export earnings of Rs.2,455.15 crore from cashew, Kerala accounts for Rs.1,505 crore, in 2007 which is 61% of the total. The Kerala State Cashew Development Corporation and the Cashew Workers' Apex Co-operative Society are the two State agencies engaged in the promotion of cashew industry. ¹⁰

III. 6. 2 Software and Hardware Industries :

It is hopeful that the State of Kerala could attract knowledge-intensive industries such as Information Technology, Software and Hardware Industries.

The Software Technology Park (STP) Scheme, Thiruvananthapuram is a 100% export-oriented scheme for the development and export of software and IT-enabled services. The Software Technology Park of India has an incubation facility and it has one of the most favourable locations for the small and medium-level export-oriented companies. As on 31-03-2006, a total of 387 units were registered under STPS – Thiruvananthapuram.¹¹ The likely establishment of the Smart City in Kochi is certainly a hopeful venture in the field.

III. 6. 3 Small Scale Industries in Kerala (Micro, Small and Medium Enterprise) :

The SSI sector is the most dynamic, vibrant and promising sector as it contributes considerably to the national income.

With the enactment of Micro, Small and Medium Enterprises Development Act 2006, the system of SSI registration has been replaced with and the system of Entrepreneurs Memorandum. Also, the earlier concept of 'Industries' has been changed to 'Enterprises'.¹² It is seen that there is a consistent rise in the total number of MSMEs in Kerala from 18,954 units in

1980-'81 to 1,95,960 units in 2007-'08. The district-wise distribution of MSMEs in Kerala as on March 31st, 2006 is presented in Table 3. 6

Table 3.6

**District-wise Distribution of Working SSIs (MSMEs) Registered in Kerala
as on 31st March 2006 and Grand Total as on 31-3-2008
(Rupees in Lakhs)**

Districts		Total Units	Total Investment	Value of Production	Employment provided(nos.)	
Thiruvananthapuram	No	21509	49136.94	100266.86	83062	
	%	11.13	8.30	8.23	11.69	
Kollam	No	15267	33384.81	64296.77	70617	
	%	8.16	5.64	5.27	9.94	
Pathanamthitta	No	9110	15715.49	18243.28	23252	
	%	4.71	2.66	1.50	3.27	
Alappuzha	No	17746	49432.78	104273.89	69262	
	%	9.19	8.36	8.56	9.75	
Kottayam	No	19721	60689.26	102357.51	56833	
	%	10.20	10.26	8.40	8	
Idukki	No	24414	104133.76	376335.01	102843	
	%	12.63	17.61	30.90	14.47	
Ernakulam	No	24414	104133.76	376335.01	102843	
	%	12.63	17.61	30.90	14.47	
Thrissur	No	22070	70950.05	118518.60	82717	
	%	11.42	12	9.73	11.64	
Palakkad	No	14432	48176.55	63906.90	45787	
	%	7.46	8.15	5.255	6.44	
Malappuram	No	10014	34077.66	67538.02	33712	
	%	5.18	5.76	5.30	4.74	
Kozhikode	No	15888	55229.82	95240.04	57771	
	%	8.22	9.33	7.82	8.13	
Wayanad	No	2848	7251.29	7822.58	9876	
	%	1.47	1.23	0.64	1.39	
Kannur	No	9827	28621.51	57659.97	35368	
	%	5.08	4.84	4.73	4.98	
Kasargode	No	4978	13266.17	20549.18	23888	
	%	2.58	2.24	1.69	3.36	
Total as on 31.3.2006		No	193302	591436.65	1218028.30	710508
Total as on 31.3.2008			195960	600354	1257899.3	722860 ¹³

Source: Economic Reviews, 2006 and 2008, State Planning Board, Government of Kerala

An analysis of the total number of SSIs reveals that Ernakulam District with 12.63% of the total, Trissur with 11.42% of the total and Thiruvananthapuram with 11.13% of the total account for more than one-third of the total number of units registered in the State. Likewise, Wayanad District and Idukki District account for the lowest, which comes to 1.47% and 2.48% respectively. Further, these SSI units in the State are promoted by different categories as tabulated below :

Table 3.7

**Category-wise Promotion of Working SSIs (MSMEs) in Kerala as on
31st March 2008**

Category	No. of Units	Per cent
Women	41,305	21.07
SC	6,834	3.50
ST	1,414	0.72
Others	1,46,407	74.71
Total	1,95,960	100.0

Source : Economic Review, 2008, State Planning Board, Government of Kerala

“In terms of number of units, there seems to be a good progress in the area of MSMEs. However, it has been pointed out that the rise in the number of units is on account of two unhealthy practices, namely, (1) high level of unemployment, due to which more people are attached to the sector ‘to start

something' with government support and easy credit from banks without undertaking any real activity, and (2) the target system followed for registration of as many units as possible by the government to inflate the number of SSI units" ¹⁴. Really, the industrial growth is much lower than the national average rate. This implies that the increase in the number of units registered does not really reflect the actual production and investment activity. Even though negative growth in the share of the number of SSIs in Kerala in the total SSIs (MSMEs) in India rose, during 1990-'91 to 2000-'01, the same was reversed in 2005-'06. Likewise, the share in terms of production also rose progressively till 2007-'08. These trends are depicted in Table 3. 8

Table 3.8

Share of Number and Production of SSIs in Kerala in Total SSIs in India during 1991, 2001, 2006 and 2008

Item	1990-'91	2000-'01	2005-'06	2007-'08
No. of units	3.8%	7.1%	1.57%	2.4%
Production value	1.5%	1.7%	2.9%	3.0%

Source : 1. Economic Review – 2008, State Planning Board, Government of Kerala and

2. Hand book of Statistics on the Indian Economy, RBI, 2006-'07.

It is clear from Table 3. 8 that the number of units registered does not really reflect the actual production activity. The general view in this regard is that : (1) there is some exaggeration in the total number of SSI units reported in Kerala, (2) SSI units in Kerala are relatively smaller in size, and (3) at least around one-third of the total number of SSIs are either non-existent or sick.

The major problem facing the small-scale sector in India is sickness. Table 3.9 lists the results of the 3rd All India Census of Small Scale Industries (2001-'02).

Table 3.9

State-wise Distribution of Sick/Incipiently Sick Units

Name of the State	Sick Units (per cent)	Incipiently sick units (per cent)	Sick/incipiently sick units (per cent)
Andhra Pradesh	4.49	6.55	6.32
Assam	0.34	0.40	0.38
Bihar	1.40	1.62	1.61
Gujarat	1.90	2.57	2.51
Haryana	2.90	2.89	1.92
Kerala	24.18	34.69	32.45
Karnataka	15.08	9.74	10.53
Madhya Pradesh	2.83	2.71	2.72
Maharashtra	9.86	5.09	5.72
Punjab	4.41	6.32	6.03
Orissa	1.18	0.35	0.48
Rajasthan	2.89	3.11	3.11
Tamil Nadu	6.88	14.76	13.81
Uttar Pradesh	2.75	2.49	2.57
West Bengal	2.41	2.82	2.81

Source : Economic Review, 2003

According to the Third All India Census, Kerala accounts for 32.45% of the total sick/incipiently sick units in the country. It may be noted that in industrially advanced States like Gujarat, sickness is as low as 2.51%. The State also accounts for 8.43% of closed small-scale industrial units in the country. The major reasons for sickness are lack of demand, shortage of working capital, non-availability of raw material, power shortage, labour problems, marketing problems, equipment problems and management problems.

Out of the total of 1,95,960 units registered so far in the State of Kerala, the number of units identified as sick on March 2008 is only 7,737. Among the sick units, 2,399 were registered for revival and 1,287 units were revived ¹⁵.

III. 6. 4 Position of MSMEs in Kerala

The district-wise break-up of MSMEs in the State is presented in Table 3.10

Table 3.10

District-wise Distribution of MSMEs as on 31-03-2008 (Rs. Lakh)

District	Enterprises		Investment		Value of production		Employment	
	No.	%	Amount	%	Amount	%	Persons	%
Thiruvananthapuram	781	6.98	4817.86	2.5	12328.65	2.1	5354	4.61
Kollam	811	7.25	11210.53	5.91	37229.73	6.33	34703	29.87
Pathanamthitta	296	2.65	2581.82	1.36	24097.45	4.1	2258	1.94
Alapuzha	581	5.19	3358.12	1.78	8212.85	1.39	1659	1.43
Kottayam	1292	11.55	33041.26	17.42	80612.25	13.70	12568	10.82
Idukki	234	2.09	2709.40	1.43	12873.81	2.19	1686	1.45
Ernakulam	2953	26.40	77987.68	41.09	26867.79	45.68	25582	22.02
Thrissur	1338	11.96	15566.12	8.20	52567.44	8.94	12485	10.75
Palakkad	448	4.04	10114.38	5.34	28016.78	4.76	4571	3.96
Malappuram	487	4.35	16663.29	8.78	18057.07	3.07	3892	3.35
Kozhikode	788	7.04	2863.36	1.51	18805.50	3.20	3594	3.09
Wayanad	190	1.71	648.62	0.34	276.27	.05	1058	.96
Kannur	819	7.32	10296.97	5.43	21863.65	3.73	5477	4.72
Kasargode	168	1.50	1901.40	1.00	4481.89	.76	1272	1.00
Total	11186	100	18976031	100	5881001.3	100	116189	100

Source : Economic Review-2008, State Planning Board, Government of Kerala.

Table 3.10 brings out another facet of the MSME sector of Kerala. Of the total number of MSMEs in the State, 49.86% are concentrated in the districts of Kottayam, Ernakulam and Thrissur. Clearly, Ernakulam is the industrial capital of Kerala, with 26.40% units. Similar is the case with respect to investment (41.09%), value of goods produced (45.68%) and provision of employment (22.02%). Wayanad has the lowest position with respect to all. There is close association between the number of small-scale enterprises and medium and large-scale enterprises. Most often, small-scale units grow as ancillary units of medium and large-scale industries. In Kerala also, the small-scale units are concentrated in districts where the spread of medium and large units is fairly high.

III. 7 Indices of Industrial Production

‘Indices of industrial production’ is a widely used indicator of the trends in the industrial sector. The industrial production in Kerala has experienced a marginal improvement from 262.59 in 2003-'04 to 266.66 in 2005-'06. Another notable feature is the concentration of Kerala’s industrial sector on a few commodities.

The General Index for the year 2006-'07 increased to 262.37 from 208.31 in 2005-'06 with base year 1993-'94 showing an increase of about 25 per cent. Negative growth was recorded in products such as jute, vegetable, fibre, textiles, etc. All other items showed positive growth. The sector –wise indices are presented in Table 3.11

Table 3. 11**Indices of Industrial Production 2003 - '06 (1980-'81=100)**

	Product Group	Weight (%)	2003-'04	2004-'05	2005-'06
1.	Food	8.82	140.83	139.26	136.99
2.	Tobacco and related products	1.46	159.91	162.91	175.94
3.	Cotton textiles	8.02	99.04	—	108.1
4.	Silk and man-made fibre textiles	1.26	32.93	35.57	37.21
5.	Mineral Products	3.26	20.25	21.46	21.79
6.	Wood & wood products	1.35	25.12	25.89	25.37
7.	Paper products	3.16	0.00	0.00	0.00
8.	Chemicals and chemical products (except products of petroleum and coal)	19.78	267.15	262.21	268.5
9	Rubber, plastic, petroleum and coal products and processing of nuclear fuels	10.06	368.89	347.99	359.62
10	Non-metallic mineral Products	3.42	163.14	165.21	173.19
11	Basic metals and alloys industries	3.43	55.83	55.82	7.68
12	Metal products and parts	0.50	353.85	363.27	369.01
13	Machinery and equipment	9.46	1086.97	1089.55	1088.08
14	Transport equipment and parts	2.67	2.05	2.24	2.3
15	Other manufacturing Industries	1.42	23.93	25.01	25.8
16	Electricity generation, transmission and distribution	21.93	164.33	169.15	179.75
General Index		100	262.59	261.31	266.66

Source : Economic Review 2007, State Planning Board, Government of Kerala

III. 8 Development Financial Institutions for Industrial Finance

The Development Financial Institutions form an integral part of the Indian financial system for they provide a wide range of financial services. These are development-oriented institutions. "Development bank is an institution to promote and finance entrepreneurs in the private sector"¹⁶. The DFIs are Specialised Financial Institutions which cater to the financing requirements of various segments like agriculture, industry, rural development, housing, transportation, etc., of the society. The DFIs may be regarded as Development Banks (DBs) as they are development-oriented. Moreover, they are also categorised as Non-Banking Financial Institutions (NBFIs) because of their specialised but non-banking financial nature of business. Hence, in the present study, the terms: DFI, SFI, DB and NBFI are interchangeably used.

332.28095483 323/2 NB 5968

III. 9 Evolution of Development Banking in India

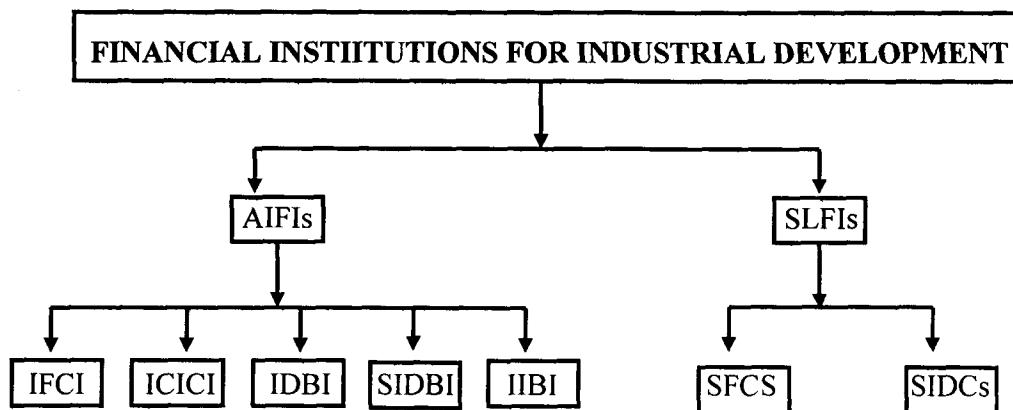
In India, in the absence of a developed capital market, the DFIs are the major source of the much needed long-term finance to the large as well as MSME sectors. "The history of development banks in India dates back to the Swadeshi Movement period of 1906-'13 during which many commercial banks were established to provide industrial finance"¹⁷. However, it is a fact that India did not gain much importance in industries under the British rule. This situation went on till 1945, in which year a detailed study was made by a committee of two top officials, viz., C.D. Deshmukh, RBI Governor, and Ardeshir Dalal, Planning Member¹⁸. Consequent on the recommendations of

the committee, the Industrial Finance Corporation of India (IFCI) was established in 1948. Since then a large number of DFIs at the national and State levels have been established in India (APPENDIX IV).

III. 10 Institutions for Industrial Finance in India and Their Contributions

At present, India is endowed with a good network of DFIs engaged in the development of industries, as presented below :-

**Chart 3.1
Major DFIs in India**



III. 10. A AIFIs for Industrial Development

The five major DFIs at the national level engaged in industrial development are detailed below :

III. 10. A. 1 The Industrial Finance Corporation of India - IFCI (1948)

The IFCI is the first institution of its kind in India. It was established with the object of pioneering long-term credit to medium and large industries. Its loaning programmes include assistance for the setting up of new industrial projects as also for the expansion, diversification, renovation or modernisation of existing units. However, it is essentially a lender, not a partner in industry. Since its inception, the Corporation distributed a total amount of Rs. 44,560.6 crore till 31st March 2006 (Table 3. 12). Recently, the performance of the IFCI has not been hopeful in Kerala. Its office in Kochi is likely to be shut down and the State of Kerala may be brought within the jurisdiction of its Chennai office.

III. 10. A. 2 The Industrial Credit and Investment Corporation of India Ltd – ICICI (1955-2003)

The Government of India, World Bank and representatives of private industry established the ICICI with the primary objective of providing foreign currency loans to industrial projects and to encourage and assist industrial development and investment in India. It functioned as a public limited company. Consequent on the merger of this Corporation with the ICICI Bank– a private sector undertaking, the ICICI ceased to be a DFI. During its lifetime, the ICICI distributed a total amount of Rs. 1,71,698.3 crore (Table 3. 12).

III. 10. A. 3 The Industrial Development Bank of India – IDBI (1964-2004)

The IDBI was established as the apex DFI for industry in the country and its major role was to co-ordinate the functions and activities of all DFIs and banks engaged in financing, promoting, and developing industry, in compliance with national priorities as per the Five Year Plans. It functioned as a wholly Government-owned Company. It financed other development banks by lending and subscribing to their securities. Pursuant to the Industrial Development Bank (Transfer of Undertaking and Repeal) Act 2003, the IDBI Act was repealed and it ceased to be a DFI. Consequently, it was merged with the then IDBI Bank - a new generation bank in the private sector. Later, the erstwhile IDBI and IDBI Bank were merged and the IDBI Bank Ltd. was evolved as a public sector bank. Today, the IDBI Bank Ltd. is one of India's largest full-fledged commercial banks. It is engaged in business of an array of corporate and retail products and services. However, during its period as DFI, the IDBI had played a significant role in the country's industrial and economic progress for over 40 years. During its lifetime, the IDBI distributed a total of Rs.1,81,072.2 crore for promotion of industries in India (Table 3. 12).

III. 10. A. 4 The Small Industries Development Bank of India – SIDBI (1990)

This DFI was established as a wholly owned subsidiary of the IDBI vide the SIDBI Act 1989. It functions as the main purveyor of credit to the SME sector industries. It co-ordinates the functions of institutions engaged in the development of the small, tiny and cottage industries. Since its inception, the SIDBI distributed a total amount of Rs. 78,802.4 crore till 31st March 2006. (Table 3. 12).

III. 10. A. 5 The Industrial Investment Bank of India Ltd – IIBI (1997)

The IIBI has its origin in the Industrial Reconstruction Bank of India established in 1985. The IRBI was transformed into IIBI on March 17, 1997 under the Companies Act 1956. It is a wholly government-owned company with financial autonomy. In addition to project finance, the bank also provides non-project asset-backed finance of short-term duration in the form of underwriting /direct subscription, etc. Since its inception, the IIBI distributed a total amount of Rs. 1,331.5 crore till 31st March 2006 (Table 3. 12).

Table 3. 12**Cumulative Sum of Financial Assistance by Various AIFIs till 31.03.2006****(Rupees in Crore)**

AIFI	Sanction		Disbursements		% of Disbursements to Sanctions
	Amount	(%)	Amount	(%)	
IFCI	454002.94	40.15	44560.6	9.33	09.81
ICICI	283510.9	25.08	171698.3	36.00	60.56
IDBI	263391.8	23.30	181072.2	37.90	68.75
SIDBI	115470.4	10.21	78802.4	16.50	68.24
IIBI	14274.5	01.26	1331.5	0.27	09.33
Total	1130650.5	100	477465.00	100	42.23

Source : 1. *Handbook of Statistics on Indian Economy, RBI 2006-07.*

2. *Annual Reports of the AIFIs (various years).*

Note : Consequent on the ceasing of ICICI and IDBI as DFIs in 2003 and 2004 respectively, the data shown by Table 3.12 are only heterogeneous because data of these DFIs are available only till 31st March 2003. Homogenous data are available as shown in Table 3.13.

Table 3. 13

**Cumulative Sum of Financial Assistance Given by Various AIFIs till 31st
March 2003 (Rupees in Crore)**

AIFI	Sanctions		Disbursements		% of Disbursements to Sanctions
	Amount	(%)	Amount	(%)	
IFCI	42261.1	6.6	44003	9.8	104.1
ICICI	283510.9	44.2	171698.3	38.3	60.6
IDBI	217873.3	34.0	162332.3	36.2	74.5
SIDBI	86158.3	13.4	59100.4	13.2	68.6
IIBI	11862.5	1.8	11062.8	2.5	93.3
Total	641666.1	100	448197.4	100	69.8

Source : Same as for Table 3. 12

As per Table 3.13, it is clear that of the total sanctions and disbursements made by all DFIs taken together, it is the ICICI which ranks first with 44.2 per cent and 38.3 per cent respectively. It is followed by IDBI with 34 per cent and 36.2 per cent. The IIBI ranks last with 1.8 and 2.5 per cent respectively.

Table 3. 14**Total Financial Assistance Given by Various AIFIs for the Period from
2000-'01 - 2005-'06 (Rupees in Crore)**

AIFI	Sanctions		Disbursements		% of Disbursements to Sanctions
	Amount	(%)	Amount	(%)	
IFCI	5895.7	2.59	5567.4	3.75	94.43
ICICI	92044.3	40.30	57495.6	38.71	62.47
IDBI	63335.4	27.73	46274.0	31.16	73.06
SIDBI	60061.9	26.30	33054.64	22.26	55.03
IIBI	7042.7	3.08	6121.9	4.12	86.93
Total	1130650.5	100	477465.00	100	42.23

Source : Same as for Table 3. 12

It can be seen from Table 3.14 that it is the ICICI which ranks first in sanctions (40.3%). Its rank is the first with regard to total disbursement also (38.71%). It is followed by the IDBI with 27.73% and 31.16% respectively. However, with regard to the relationship between sanctions and disbursements of each AIFI, IFCI ranks first with 94.43%, followed by IIBI with 86.93%. The SIDBI is characterised by poor disbursement which amounts only to 55.03 %.

Table 3.15

**Cumulative Sum of Financial Assistance by AIFIs to the State of Kerala
till 31st March, 2003 (Rupees in Crore)**

AIFI	Sanctions		Disbursements		% of Disbursements to Sanctions
	Amount	(%)	Amount	(%)	
IFCI	357.7	3.7	344	4.9	96.2
ICICI	1929.01	20.1	1174.9	16.8	60.9
IDBI	3362.1	35.0	2438.7	34.8	72.5
SIDBI	3749.1	39.1	2856.2	40.7	76.2
HBI	197.4	2.1	199.4	2.8	100
Total	9597.4	100	7013.2	100	70.1

Source : Same as for Table 3.12

It is clear from Table 3.15 that despite the recent establishment, it is the SIDBI which has assisted Kerala better with 39.1% of total sanctions to Kerala by all AIFIs taken together and 40.7% disbursements of the total assistance of all AIFIs to Kerala taken together.

Table 3.16

**Total Financial Assistance by the AIFIs to the State of Kerala out of Their
Total Assistance till 31st March 2003.**

AIFI	Sanctions	Disbursements
IFCI	0.85%	0.78%
ICICI	0.70 %	0.68%
IDBI	1.50%	1.50%
SIDBI	4.30 %	4.8%
IIBI	1.7%	1.8%
Total	1.50%	1.56%

Source : Same as for Table 3. 12

From Table 3.16 it is seen that it is the SIDBI which had given comparatively more assistance from its total - to the nation as a whole - to Kerala. Out of its total assistance, more than 4% was given to Kerala. It is followed by the IIBI. The IFCI and the ICICI have made merely a nominal portion of their total assistance to Kerala.

III. 10. B SLFIs for Industrial Development

There are two major SLFIs functioning as DFIs, viz., the SFCs and SIDCs.

III. 10. B. 1 State Financial Corporations – SFCs

Consequent on the enactment of the SFCs Act in 1951, the State Financial Corporations were set up in various States. The SFCs were established on the footing of the IFCI. Hence, the functions of SFCs are similar to those of the IFCI with the major distinction that the SFCs are concerned with granting financial assistance to the Small and Medium Enterprises (SME) which fall outside the scope of their parent company, i.e., the IFCI. Further, the IFCI confines itself to the financing of public limited companies only. Sole proprietorship concerns and partnership firms are outside its purview. Also, its resources are not adequate to serve the needs of a wide country like ours. Only the RBI, the Government of India and insurance companies are permitted to subscribe to the share capital of the IFCI. The general public is debarred from such subscription. It is also said that the IFCI is very conservative in its dealing and charges unduly high rates of interest. Likewise, undue delay is experienced in sanctioning and disbursing the assistance. It has also been alleged with red-tapism and favouritism. With a view to overcoming these drawbacks, the Union Government enacted the SFCs Act which authorised each State of the Union to establish its own SFC. The Punjab Government took the lead in organising the Financial Corporation as

per the above legislation when the PFC was set-up in 1953. At present, there are 18 SFCs in the country, of which 17 were set-up under the SFCs Act. The Tamil Nadu Industries Investment Corporation Ltd., which was established in 1949 as per the provision of the Indian Companies Act 1913 as the Madras Industrial Investment Corporation, also does function as SFC.¹⁹ Activities of some SFCs cover the neighbouring States/Union Territories which do not have SFC of their own. The SFCs offer different forms of financial assistance to the SME segment of industries. Since their inception, all SFCs taken together have distributed a total amount of Rs. 34,196 crore upto 31.03.2004 (Table 3. 17).

III. 10. B. 2 State Industrial Development Corporations – SIDCs

The SIDCs are wholly owned undertakings of the State Governments for promotion and development of medium and large industries in the respective States. They provide financial assistance in various forms and undertake a range of promotional activities which include preparation of feasibility reports, conducting industrial surveys, etc. At present, there are 28 SIDCs in the country. Since their inception, the SIDCs have distributed a total amount of Rs. 20,902.7 crore till 31.03.2004 (Table 3. 17).

Table 3 . 17**Cumulative Assistance by SLFIs (Rupees in Lakh)**

SLFI	Sanctions		Disbursements		% of Disbursements to Sanctions
	Amount	%	Amount	%	
SFCs	4016660	61.14	3419600	62.06	85.14
SIDCs	2553270	38.86	2090270	37.94	81.87
Total	6569930	100.00	5509870	100.00	83.86

Sources : Same as for Table 3. 12

From Table 3. 17, it is seen that the SFCs are more prompt in service with regard to sanctions, and disbursements of loans.

III. 10. C Comparative Analysis Among Financial Assistance of All DFIs

A comparative analysis of the seven DFIs under study taken together is possible only for the period from 1990-'91 to 2001-'02, as this period is common for all. The same is presented in Table 3. 18.

Table 3.18**Total Assistance by Seven DFIs During 1990-'91 to 2001 -'02**

DFI \ Assistance	1	2	3	4	5	6	7	Total
	IFCI	ICICI	IDBI	SIDBI	IIBI	SFCs	SIDCs	
Sanctions (%)	5.51	44.86	27.41	13.63	1.5	4.42	3.03	100
Disbursements (%)	8.31	38.35	28.45	13.21	2.08	5.67	3.95	100

Sources : Same as for Table 3. 12

As per Table 3. 18, the erstwhile development banks namely the ICICI and the IDBI shared the first and second places in the distribution of credit to industries. However, among the SLFIs, it is the SFCs which rank first.

Conclusion

The industrial sector of Kerala is still in gestation stage. It has not recorded significant development. The manufacturing sector is concentrated in low technology lines of production. Even among the major areas of industrial production in Kerala, significant growth is registered only in a few products like chemicals and chemical products and machinery and equipment. The traditional industries do suffer a lot from the outdated technology and competition from substitutes. On account of the inherent problems of the State, modern industries are also not growing at an appreciable rate. A major factor contributing to industrial development is the deployment of credit. Both, the availability and cost of credit are equally important. The Government-sponsored DFIs have to play vital role in this respect.

The KFC is the most important agency engaged in industrial promotion in Kerala. It provides term loan assistance up to a maximum of Rs. 500 lakh per unit for the corporate sector and Rs. 200 lakh for others to develop and promote small and medium-scale units in the State. The KFC distributed a total amount of Rs. 37,314 lakh during 2008-'09 as against Rs. 24,555 lakh in 2007-'08. The total disbursements of the Corporation have shown an increasing trend from 2005-'06. The environment in the State in which the

Corporation operates remained highly competitive, with many scheduled commercial banks and co-operative banks chasing limited demand. In accordance with its strategies, the focus of the Corporation was more on addressing the weakness than on bringing development. The present study on the KFC is undertaken in this context. Chapter four of the present study is concerned with the particular role of the KFC in the promotion of MSMEs in the State of Kerala.

References

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CHAPTER IV

ROLE OF KERALA FINANCIAL CORPORATION IN THE PROMOTION OF MSMEs IN KERALA

**IV. A PROFILE OF THE KERALA FINANCIAL
CORPORATION**

IV. B FINANCIAL OPERATIONS OF THE KFC

IV. C LOAN DISBURSEMENT AND REPAYMENT

SYSTEMS OF THE KFC

CONCLUSION

REFERENCES

CHAPTER IV

ROLE OF KERALA FINANCIAL CORPORATION IN THE PROMOTION OF MSMEs IN KERALA

This chapter attempts to study the role of the KFC in the promotion of MSMEs across the State during the period under study.

Pursuant to the enactment of the SFCs Act in 1951 in India, the SFC for the Trivandrum and Cochin princely States, viz., The Travancore – Cochin Corporation, was established on December 1, 1953. Consequent on the re-organisation of States on linguistic basis, the Corporation was renamed Kerala Financial Corporation in 1956¹. Till recently, it had five regional offices in different districts, viz., Thiruvananthapuram, Kottayam, Ernakulam, Palakkad and Kozhikode. In addition to these regional offices, each district had one district office. The district of Idukki had two district offices, one at Kattappana and the other at Thodupuzha. In 2002, all regional and district offices were abolished and renamed branch offices. And also one more branch office was opened at Perumbavoor in Ernakulam district. Now, the Corporation has sixteen branch offices.

The SFCs were established with a view to overcoming the drawback of the IFCI and to bringing all industrial units which were outside the purview of financial assistance of the IFCI within the scope of this State-wide DFI. Thus, the KFC has the responsibility of industrial promotion in the State of Kerala through its rational, objective and transparent approach. This chapter attempts

to assess the role of the KFC in the promotion of MSMEs in the State during the period under study. This micro level analysis is done on the basis of data gathered through field survey covering 13 officials of the KFC and 60 industrial units from the four revenue districts-15 each from the four categories made by the KFC, Category A: Idukki - 15, Category B : Malappuram - 15, Category C : Thirunvananthapuram - 15, and Category D: Ernakulam - 15 units. Further, information obtained from the KFC officials and various secondary data are also used. The analysis is divided into three parts, viz., A, B and C.

PART A

Profile of the Kerala Financial Corporation

1. Organization and management of the KFC
2. Capital structure of the KFC
3. Purpose, functions and schemes of assistance

IV. A. 1 Organisation and Management of the KFC

The KFC has its headquarters at Thiruvananthapuram with 16 branch offices across the State. The Chairman is placed at the top position in the management set-up. He/she is nominated by the SIDBI vide sections 15(1) and 10(a) of the SFC's Act. The Chairman who does not have executive power is accountable to the Board of Directors. The Corporation has an executive committee with a delegated authority. It has a full-time Managing Director,

who holds the second position in the organisational hierarchy. Generally, an IAS officer is appointed the MD. The MD is assisted by two General Managers – one for operations, who looks after the general administrations, and the other is in charge of finance and development activities. The GMs are assisted by four Deputy General Managers, each with district sphere of functions and by the Financial Controller. The next position in the organisation hierarchy is that of Assistant General Managers. There are eleven AGMs in charge of independent sectors, viz., finance, loan, accounts, personnel, follow-up and recovery, project monitoring cell, branch monitoring cell, law, public relations, and caretaker. The AGMs have Managers/ Deputy Managers as their immediate subordinates. The Managers/Deputy Managers are the heads of the branch office.

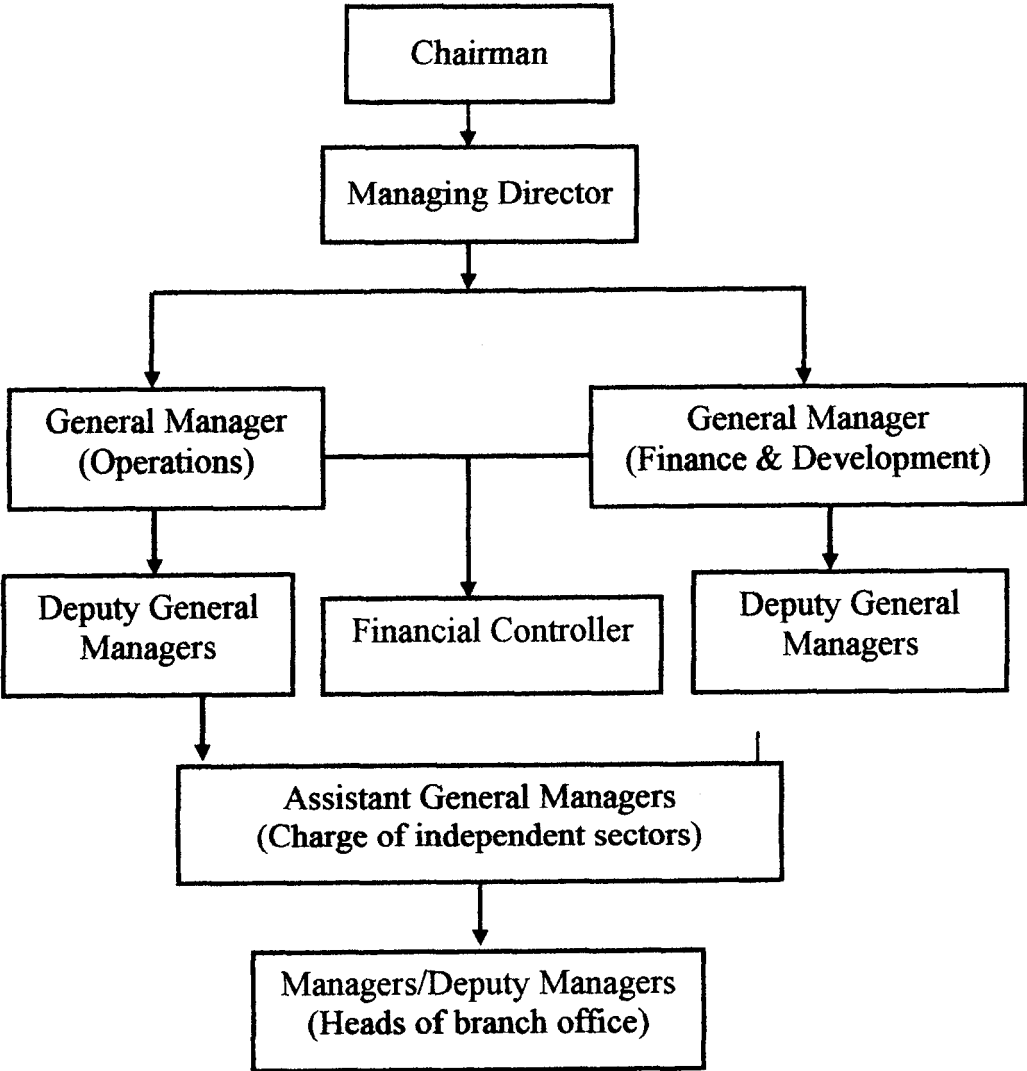
The Board of Directors consists of thirteen members including the Chairman. The constitution of the Board is like thus²:

- Four by SIDBI (*One-the Chairman of KFC- is selected under section 15(1) and read with section 10(a) of the SFCs' Act. Three are selected under section 10(c) of the SFCs' Act).*
- Seven by the Government of Kerala (*Three under section 10(b), Three under section 10 (d) and one under section 17(1) of the SFCs' Act).*
- Two are elected under section 10(e) of the SFCs' Act .

Prior to the ceasing of the IDBI as DFI, it had nominated one director under section 10(c) of the SFCs' Act.

The Board of Directors is the governing body of the Corporation. All major policy decisions are taken by it. The effectiveness of this public sector undertaking, therefore, is vested in the hands of the Board of Directors. As the success or failure of the Board to a great extent depends on its composition, it is advisable that the Board should consist of both full-time specialists from within the organization and part-time policy makers from outside, as was recommended by the Administrative Reforms Committee.³

Chart 4.1
Hierarchy of Management of the KFC



IV. A. 2 Capital Structure of KFC ⁴

The KFC is an undertaking in the public sector. However, apart from the IFCI, the Kerala Financial Corporation permitted the general public to subscribe to its share capital from its inception itself. Now, i.e., in 2009, about 87% of its 71 shares are issued to the private shareholders. The Government of Kerala hold shares amounting to Rs.19,782.51 lakh, which amounts to 96.94% of the value of total shares. As the principle of *One Man, One Vote* is not applicable to SFCs, the Government of Kerala itself is the sole controlling authority of the Corporation. The capital of the Corporation, however, consists both owned capital and loan capital. The capital structure of the Corporation may be analysed from these two angles.

IV. A. 2. 1 Ownership Capital

In addition to the Government of Kerala, institutions like IDBI, commercial banks, insurance companies and private individuals also subscribe to the share capital of the Corporation. The distribution of shareholdings in the KFC till 2007 is depicted in Table 4. 1.

Table 4.1

Distribution of Shareholdings and Growth over Previous Years in Percentage (From 2001 to 2007)

Share holders	No. of holdings	2000-'01		2001-'02		2002-'03		2003-'04		2004-'05		2005-'07 (Two years)	
		C	G	C	G	C	G	C	G	C	G	C	G
Govt. of Kerala	1	188.20		88.81	6.21	89.61	8.62	90.28	7.69	90.41	1.43	90.53	1.41
IDBI	1	11.61		11.00	0	10.22	.006	9.56	0	9.44	0	9.32	0
Commercial Banks, Insurance Cos. Etc.	7	0.17		0.17	0	0.16	-0.02	0.14	0	0.14	0	0.14	0
Private Shareholders	62	0.02		.20	0	.01	-2.44	0.02	0	0.01	0	0.01	0
Total	71	100		100	5.48	100	7.54	100	6.89	100	1.27	100	1.27

Source : Annual Report of KFC for the respective year

Note : C : Current Position

G : Growth over the previous year's percentage

Table 4. 1 reveals that the lion's share of the equity is held by the Government of Kerala, which amounted to 90.53 per cent in two years from 2005-'06 and 2006-'07, 90.41 per cent in 2004-'05., 90.28 per cent in 2003-'04 and 89.61 per cent in 2002-'03. Merely a nominal portion of the share capital is held by other shareholders. In the two years from 2005 to 2007, only 9.47 per cent (i.e. $9.32 + 0.14 + 0.01$) of the total holdings was held by other shareholders like IDBI, commercial banks and insurance companies and individual shareholders who formed 98.6 per cent in number.

Further, when the comparative analysis of shareholding of the seven years was made, it could be observed that the Govt. of Kerala retained its dominant position with regard to the volume of subscription to the share capital of the corporation. An increasing trend was seen in the holdings of the Government across the years. However, the growth rate of each year over the previous year did not remain constant. It stood at the highest in 2002-'03 with 8.62 per cent. From 2003-'04 onwards, it showed a declining trend. It is worth noting that only a nominal growth rate was visible during 2004-'05 and 2005-'06 (as also in 2006-'07) with 1.43 per cent and 1.41 per cent respectively. Similar was the situation with regard to the total holdings of all shareholders across the years taken for the study. While the other shareholders were taken individually, the IDBI was characterised by a remarkable decreasing trend in the yearly shareholdings in value. The same was the case for others like commercial banks, insurance companies and individuals. The holdings of the Government of Kerala in 2000-'01 was 88.2 per cent of the

total while in 2005-'07, it came to 90.53 per cent of the total. From this, it is inferred that KFC is certainly to exist as an undertaking in the public sector despite the ongoing economic reforms.

Even though the Govt. of Kerala is the dominant share holder of the Corporation, some changes have been effected in the total holdings, the details of which are given in Table 4. 2.

Table 4. 2

Composition of Shareholders as on March 31st, 2009 (Rupees in lakh)

Shareholders	Shareholdings	
	Rs.	Rs.
Govt. of Kerala	19782.51	96.94
SIDBI	613.33	3.01
LIC	7.10	0.03
SBT	2.10	0.01
Others	0.96	0.01
Total	20406.00	100

Source : Annual Report of KFC, 2009

From Table 4. 2, it can be inferred that the Government of Kerala continues to be the only dominant shareholder of this public sector Corporation. The holdings of IDBI were transferred to the SIDBI in 2009. Further, the LIC and SBT also became shareholders of the Corporation.

Moreover, the share capital of the KFC consists of different components, viz., paid-up capital, special shares and advance for shares. How much each component constitutes the total share capital is indicated in Table 4.3.

Table 4.3
Break-up of Share capital for the Period under Study

(Authorised share capital is 200 lakh shares of Rs. 100 each amounting to Rs. 20,000 lakh)

Share capital	2002-'03	2003-'04	2004-'05	2005-'06	2006-'07
Issued, subscribed fully paid	1243566500 (92.3)	1450641500 (90.6)	1414166500 (91.2)	1511666500 (96.2)	1529166500 (96.1)
Special shares	33975000 (2.5)	33975000 (2.3)	3647500 (2.4)	38975000 (2.5)	41475000 (2.6)
Advance for shares	70000000 (5.2)	103100000 (7.1)	100000000 (6.4)	20000000 (1.3)	20000000 (1.3)
Total	1347541500 (100)	1450641500 (100)	1550641500 (100)	1570641500 (100)	1590641500 (100)

Source : Same as for Table 4.1

Note : Figures in brackets denote percentage to total

As per Table 4.3, the paid-up capital and special shares showed an increasing trend over the years whereas advance for shares shows a decreasing trend. And this trend goes on in 2009 also.

During 2007-'08 the share capital of the Corporation confined to Rs. 1590641500 with fully paid-up share and during 2008-'09 it stood at Rs. 2040600300 out of which 36.3 per cent (i.e. Rs. 740600300) constituted fully paid-up shares and 63.7 per cent (i.e. Rs. 1300000000) constituted advance for shares.⁶

IV. A. 2. 2 Loan Capital

The capital structure of the Corporation consists of borrowed capital also. Its break-up is presented in Table 4. 4.

Table 4. 4

Borrowed Capital of the KFC during the Period under Study (in Rupees)

Borrowings	2001-'02	2002-'03	2003-'04	2004-'05	2005-'08 <i>(Three Years)</i>
From RBI against Ad hoc bonds	95000000 (9.2)	107300000 (3.0)	Nil	Nil	Nil
From SIDBI, Kochi	3998494211 (94.0)	3394225864 (94.2)	3032336697 (100)	3297967145 (97.0)	3255488888 (100)
From IDBI, Kochi	116838788 (2.8)	10211330 (2.8)	Nil	Nil	Nil
From other banks	42500000 (1.0)	Nil	Nil	100000000 (3.0)	Nil
Total	4252832999 (100)	3604437014 (100)	3032336697 (100)	3397967145 (100)	3255488888 (100)

Source : Same as for Table 4. 1

Note : Figures in brackets denote percentage to total.

As per Table 4. 4, the borrowed capital of the Corporation went on decreasing between 2001-'02 and 2005-'08 year by year. It was due to the Corporation's shift from financial leverage with a view to reducing the burden of interest.

IV. A. 2. 3 Debt : Equity of the Corporation

The Debt-Equity ratio (which represents the financial leverage) indicates the financial risk undertaken by the corporate undertakings. The ratio relates all recorded creditors' claims on assets to the owners' recorded claims in order to measure the firm's obligations to creditors in relation to funds provided by the owners. On the average, a debt to equity ratio of 1 : 1 is desirable. In the analysis of long-term financial condition of a business, the ratio enjoys the same importance as the current ratio in the analysis of any short-term financial position. The D-E ratio of the KFC for seven years under study is presented in Table 4. 5.

Table 4. 5

Debt-Equity Ratio of the KFC

2002-'03	2003-'04	2004-'05	2005-'06	2006-'07	2007-'08	2008-'09
5.09 : 1	5:1	5:1	5:1	5:1	5:1	5:1

Source : KFC Annual Report 2009

The average D-E ratio was 5.02 : 1, which means that the KFC had obtained a very large proportion of its funds by way of borrowings. From this, it is inferred that the KFC's dependence on external finance created interest burden on the Corporation and moreover it would be hard pressed when the repayment of outside debts would take place.

IV. A. 2. 4 Financial Restructuring ⁸

The Corporation resorted to a financial restructuring exercise during 2009. The Extra Ordinary General Meeting held on 20-03-'09 decided to adjust the entire accumulated loss against the the paid-up share capital. The accumulated loss of Rs. 105 crores has been wiped out by setting off the loss against the paid-up share capital with the concurrence of SIDBI and Government of Kerala and also with the approval of the share holders. Section 4E (2) (b) of the SFCs Act, 1951 facilitates this setting off.

IV. A. 3 Purpose, Functions and Schemes of Assistance ⁹

The object of the KFC is to finance the long-term needs of the industries of the MSME segment in the State. The Corporation promotes industries in Kerala by granting financial assistance to existing units or to start new units and also to expand or diversify or modernize the existing units. A wide range of activities (APPENDIX III) are there which qualify for financial assistance from the Corporation.

In addition to its schematic assistances, the KFC conducts seminars and clientele meets at various places in the State for the purpose of promoting awareness among prospective entrepreneurs and for obtaining the views of customers. For redressing their grievances in each of its branch offices, a separate Customer Relations Cell has been working which provides necessary guidance to clients. The Corporation gives financial assistance to all types of

industries engaged in manufacturing activities, when the project cost for such loans does not exceed Rs. 12 crore. For service sector, the limit is Rs. 10 crore. The unit (existing/new) should necessarily be in Kerala. The maximum term-loan limit for the corporate sector is Rs. 500 lakh and for others it is Rs. 200 lakh.

PART B

Financial Operations of the KFC

Definitely, over the fifty-four years, the KFC has registered its commitment to the provision of finance to industries. It can claim a series of milestones to its credit. Since inception, it has assisted more than 40,000 units. This part of the chapter makes an attempt to examine various activities of the Corporation by analysing its various operational aspects.

IV. B. 1 Summary of Overall Loan Operations

The loan operations of the KFC are summarised with the help of the same variables used by the Corporation for this purpose. The details are presented in Table 4.6

Table 4. 6**Summary of Loan Operations (Amount in Lakhs of Rupees)**

Sl. No.	Particulars	2002-'03	2003-'04	2004-'05	2005-'06	2006-'07	2007-'08	2008-'09
1.	Applications pending on 1st April	5236	2090.4	1137	4324.1	2165	2165	3657.75
2.	Applications received during the year	22766	19789.2	18820	16518	20242	21316	43342.11
3.	Total applications for consideration	28002	21879.5	19957	20842	22407	23515	46999.86
4.	Applications withdrawn/rejected or otherwise disposed of	9989	3784	4652	6563.5	4813.6	6663	9348.77
5.	Applications sanctioned	16382	16958	10981	12113	13796	12414	37651.09
6.A	Applications cancelled / reduced out of current year's sanction	352.3	163.8	30.5	15.96	213.02	17.4	336.77
B.	Applications cancelled/ reduced out of previous year's sanction	1629.9	2438.7	3573.7	1437.9	3204.3	2818.6	2403.74
7.	A. Total reduction	1982.2	2602.4	3604.2	1453.8	3417.4	2215.7	2740.51
	B. Effective sanctions	16030	16794.3	10951	12097	13583	14317	37314.32
8.	Amount disbursed	11231	11902.2	8547.8	7851.7	9725.3	8423.8	293339.26

Source : Annual reports of KFC

Table 4. 7
Analysis of Loan Operations (AAG)

Sl. No.	Particulars	SSI		Others		Total	
		No.	Amount	No.	Amount	No.	Amount
1.	Applications pending as on 1st April	-10.615	21.06	-1.07	37.82	-8.59	24.92
2.	Applications received during the year	-11.62	-8.31	-12.43	4.71	-12.31	-1.53
3.	Total Applications for consideration	-13.212	-12.59	-12.76	4.57	-13.21	13.74
4.	Applications withdrawn/ rejected or otherwise disposed of	19.142	-7.75	-14.92	135.08	-7.15	-4.95
5.	Applications sanctioned (GROSS)	-10.744	-5.01	-8.87	3.39	-12.05	-1.50
6.	A. Applications cancelled/ reduced out of current year's sanction	-58.333	301.28	301.28	301.28	301.28	301.28
	B. Applications cancelled / reduced out of previous year's sanction	14.464	204.21	2.77	172.64	-0.27	31.85
7.	A. Total cancellation / reduction (6A + B)	4.4615	203.89	-0.39	13.23	-5.56	29.04
	B. Applications sanctioned effectively (5-6A)	-10.662	-5.11	-12.30	3.22	12.00	-1.41
8.	Amount disbursed	-19.704	-11.04	-16.44	-5.29	-18.26	-8.96

Note : 1. These estimates are made from data as per the source of Table 4. 6 (figures of 2007-'08 & 2008-'09 not considered)

$$2. \text{ AAG} = \text{Annual Average Growth} = \left(\frac{\text{CF}_1 - \text{PF}_1}{\text{PF}_1} \times 100 + \dots + \frac{\text{CF}_n - \text{PF}_n}{\text{PF}_n} \times 100 \right) / N$$

Where CF₁ is the current figure of the first year, PF₁ is the previous figure of the first year, CF_n is the current figure of the nth year. PF_n is the previous figure of the nth year and N is the number of years.

From Table 4.7, it is seen that the number of applications for consideration in each year decreased over that of the previous year. This remarkable trend was conspicuous till 2006. A slight increase was registered in 2007. The overall scenario is characterised by an AAG of (-)13.21 with regard to the number of applications and (-)3.74 with regard to the amount applied for. A similar decreasing trend was seen with regard to gross sanctions. It was characterised by an AAG of (-)12.05 for number of units and (-)1.50 for amount sanctioned. Regarding the total disbursements, the AAG happened to be (-)18.26 for number of units and (-)8.96 for amount. From this analysis, it is inferred that the role of the KFC in the process of industrialisation had been eroding year by year.

IV. B. 2 Size-wise Summary of Loan Operations

The KFC gives assistance to SSIs and non-SSI as is presented in Table 4. 8

Table 4. 8
Size-wise Classification of Loans Sanctioned (Rupees in lakh)

Size	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	AAG
SSIs	7943.02 (49.55)	6124.15 (39.36)	6411.46 (38.18)	3939.02 (35.97)	3593.51 (29.70)	5030.88 (37.04)	-05.11
Non-SSIs	8086.52 (50.45)	9434.88 (60.64)	10382.82 (61.8)	7011.76 (64.03)	8503.88 (70.30)	8552.53 (62.96)	3.22
Total	16029.54 (100)	15559.03 (100)	16794.28 (100)	10950.78 (100)	12097.39 (100)	13583.41 (100)	-1.41

Source : Annual Reports of KFC for 2001-'02 to 2006-'07.

Note : Figures in brackets denote percentate to total in respective columns.

Table 4. 8 shows the sanctions of loans made by the KFC during the period under study for industrial units of different size. Accordingly, the major portion of assistance given by the KFC went to the non-SSI sector. It varied from 50.45 per cent to 70.30 per cent. Further, an unfavourable trend with an AAG of(-)05.11 was seen with regard to sanctions to SSIs. This means that the sanctions to the SSIs had decreased year by year. Conversely, the sanctions made to the non-SSIs increased, showing an AAG of 03.22. From this it can be inferred that the KFC prefers assistance to the non-SSI segment industries.

The same trend is seen in 2008-'09 also in which year 82.7 per cent is found to be distributed to the non-SSI segment.¹⁰

IV. B. 3 District-wise Summary of Loan Operations

The KFC has classified the revenue districts of Kerala into two, viz., backward and non-backward. This analysis is also made accordingly. The details are presented in Table 4.9.

Table 4. 9**District-wise Break-up of Effective Loans Sanctioned (Rupees in lakh)**

Districts	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	AAG
<u>Backward</u>							
Idukki	1183.16	892.77	1235.31	233.36	441.00	580.10	10.65
Wayanad	163.35	357.26	171.65	117.91	314.29	304.28	39.76
Alappuzha	790.87	291.65	164.53	331.90	460	785.68	20.88
Malappuram	769.07	626.35	876.99	897.64	602.54	1187.15	17.59
Kannur	712.33	365.6	289.42	218.65	145.00	332.08	0.27
Thiruvananthapuram	1372.96	1887.23	1680.06	2101.36	1851.32	1392.77	2.98
Trissur	1918.77	2370.06	2095.33	2193.59	1659.93	1963.40	2.11
Total	7263.81	7076.31	6840.86	6144.71	5696.27	6888.31	-0.49
<u>Non-Backward</u>							
Pathanamthitta	608.57	574.02	278.81	893.50	65.95	355.00	101.81
Kollam	1499.79	1257.22	1113.42	465.6	821.29	634.13	-6.44
Kottayam	1032.89	700.85	531.83	287.91	182.37	315.89	-13.11
Ernakulam	3460.55	4034.17	5940.03	2078.93	3737.88	3873.31	16.45
Palakkad	926.95	1156.39	1015.21	543.64	710.02	478.56	-7.18
Kozhikode	1236.98	760.07	1074.12	536.49	883.61	1038.21	6.98
Total	8765.73	8482.72	9953.42	4806.07	6401.12	6695.1	0.04
Grand Total	16029.54	15559.03	16794.28	10950.78	12097.39	13583.41	-1.41

Source : Annual Reports of KFC for 2001-'02 to 2006-'07

As per Table 4. 9, a favourable or positive AAG was seen with regard to the total sanctions to the backward districts, despite the total sanctions to all the backwards districts, as represented by an AAG of (-)0.49 per cent. A similar trend was seen in the sanctions to non-backward districts,

represented by an AAG of 0.04. With regard to total sanctions, an AAG of (-)1.41 was visible. From this, it is clear that the KFC focuses financial assistance to the industrial units of non-backward districts. A similar trend is visible for the year 2008-'09 when out of the total assistances (Rs. 37,314.32 lakh), 52.7% was distributed to non-backward districts.¹¹

IV. B. 4 Amount-wise Summary of Loan Operations

The amount-wise assistance made by the KFC is presented in Table 4. 10.

Table 4. 10

Amount-wise Classification of Loans Sanctioned

Amount (Rupees in Lakh)	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	AAG
Upto 50,000	13.04	3.06	0	0.29	0.45	1.00	-13.27
50,001-1,00,000	84.49	18.23	10.34	7.75	7.22	6.30	-33.27
1,00,001-2,00,000	329.36	100.93	51.61	62.47	46.52	42.31	-26.35
2,00,001-5,00,000	1583.74	567.57	446.51	339.59	253.83	234.86	-28.43
5,00,001-10,00,000	2650.05	1186.91	984.88	518.23	525.36	640.49	-19.26
10,00,001-20,00,000	2126.88	2156.90	1785.23	1104.18	1244.29	1316.45	-7.10
20,00,001-30,00,000	2169.21	949.80	1387.51	1259.88	805.24	2032.96	11.12
30,00,001-40,00,000	1452.97	1281.96	586.49	410.47	443.85	1037.55	9.17
40,00,001-50,00,000	968.80	1456.17	1044.70	835.47	1620.23	2000.00	23.88
50,00,001-60,00,000	180.00	350.65	579.50	175.00	243.50	229.50	24.73
60,00,001-90,00,000	119.00	985.00	1025.50	1040.45	1471.00	781.95	9.36
Above 90,00,000	3272.00	6501.85	8892.01	5197.00	5435.90	5260.00	19.05
Total	19029.54	15559.03	16794.28	10950.78	12097.39	13583.41	-1.41

Source : Annual Reports of KFC for 2001-'02 to 2006-'07

Table 4. 10 exhibits the amount-wise sanctions of loans made by the KFC for six years. It is clear that the KFC's assistance in the range of Rs. 50,00,001 - Rs. 60,00,000 had the highest AAG represented by 24.73 per cent, followed by the range of Rs. 40,00,001 - Rs. 50,00,000 representing an AAG of 23.88 per cent. The range of more than Rs. 90,00,000 is associated with the next AAG which comes to 19.05 per cent. Majority of the other ranges showed negative AAG.

As far as the assistance in 2008-'09 is concerned, out of the total which amounts to Rs. 37,314.32 lakh, more amount (Rs. 2,733.4 lakh) is found to be lent within the range of Rs. 4000001 to 5000000. ¹²

IV. B. 5 Industry-wise Loan Operations

The KFC has listed the entire industries which come within its ambit of assistance, into eighteen types. The industry-wise assistance of the KFC is analysed in terms of total disbursements made to each industry, as is presented in Table 4. 11.

Table 4. 11

Summary of Industry-wise Loan Disbursements (Cumulative)

No.	Type of Industry	2001-'02	2002-'03	2003-'04	2004-'05	2005-'06	2006-'07	AAG
1	Mining	5805.21	6372.63	6979.42	7557.52	8040.99	8954.05	9.07
2	Crude Petroleum	107.73	119.73	119.73	119.73	119.73	119.73	2.23
3	Petroleum Refining	11.31	11.31	11.31	11.31	11.31	11.31	0.00
4	Sugar	0	0	0	0	0	0	
5	Other Food Products	16835	18053	19218.2	19964.7	20758.5	21835.2	5.35
6	Textiles	4055.68	4610.06	4970.08	5146.3	5302.54	5344.86	5.77
7	Paper and Paper Products	4061.65	4343.04	4938.82	5092.08	5216.97	5420.18	6.02
8	Leather and Leather Products	544.4	544.4	544.4	544.4	544.4	544.4	0.00
9	Rubber Products	13209.8	13909.3	14578.6	15139	15677.4	16451.2	4.49
10	Chemical and Chemical Products	4925.18	5276.62	5574.51	5745.33	5804.22	5849.72	3.53
11	Fertilizer	0	0	0	0	0	0	
12	Cement	84.07	84.07	84.07	84.07	84.07	84.07	0.00
13	Basic Metals:							
	(a) Iron & Steel	1959.31	2149.2	2317.48	2449.02	2466.32	2481.82	4.91
	(b) Non-Ferrous	603.58	603.58	603.58	603.58	603.58	603.58	0.00
14	Metal Products	3713.72	3803	3903.09	4005.76	4022.42	4037.79	1.69
15	Capital Goods							
	(a) Non-Electricity Machinery	1112.53	1535.42	1660.84	1754.96	1754.96	1784.6	10.71
	(b) Electrical Machinery	1911.24	1947.33	1966.11	2051.78	2064.45	2084.85	1.76
	(c) Electronic Machinery	0	0	0	0	0	0	
	(d) Transport Equipment	1031.25	1036.02	1037.62	1038.52	1038.52	1076.42	0.87
16	Electricity Generation	35.24	35.24	35.24	35.24	35.24	35.24	0.00
17	Services							
	(a) Motels & Shopping Complex	35775.8	39498.5	44495.4	48448	52063.3	56935.4	9.75
	(b) Hospitals	5699.58	6634.15	7970.39	8536.53	9425.74	10126.2	12.30
	(c) Others	40419.4	41290	42091.1	42600.9	43558.5	44160.4	1.79
18.	Others	45016.1	46292.1	46950.8	47669.8	47857.2	48234.4	1.39
	Total	186918	198149	210051	218500	226550	236175	4.79

Source : Annual Reports of KFC (2002-07)

From Table 4. 11, it is clear that disbursement to each industry was on the increase, with favourable AAG. The hospital industry showed the highest AAG of 12.30 per cent. It was followed by non-electrical machinery with an AAG of 10.71 per cent, motels and shopping complex with an AAG of 9.75 per cent, and Mining Industry with an AAG of 9.07 per cent. Further, no disbursement was made to sugar, electronic machinery and fertiliser. Electricity generation, cement, etc., had the same disbursement every year. When the cumulative disbursement is taken, a positive trend is seen with an AAG of 4.79 per cent. From this it is inferred that the KFC gives serious care to disburse loans to the promising industries.

IV. B. 6 Performance Indicators of KFC

Different variables as listed in Table 4. 12 are used to measure the performance.

Table 4. 12

Highlights of Performance of the Corporation (Rupees in lakhs)

Variables	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	AAG
Total application	28002	28002	21879	19957	20842	20242	-3.74
Sanctions	16382	15573	16958	10981	12113	13583	-01.41
Disbursements	17594	11231	11902	8548	7852	9725	-08.53
Recovery	23709	25285	27284	24468	21389	19907	-03.06

Source : Annual Reports of KFC for 2001-'02 to 2006-'07

While Table 4. 12 is analysed, it is seen that the AAG of the total applications, sanctions, disbursements and recoveries of loans showed negative figures during the period under study despite a positive AAG of the cumulative disbursement, as shown by Table 4.11. From this it is inferred that the performance of the KFC as a financing agency was represented by an adverse trend in fulfilling all of the needers during the period under study. Further, Table 4.13 shows various indicators of performance of the KFC during the six financial years from 2001-'07.

Table 4. 13
Credit Disbursement of the KFC

Variable	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Sanction as a percentage of application	58.5	55.6	77.5	55.0	58.1	67.1
Disbursement as a percentage of sanction	107.4	72.1	70.2	77.8	64.8	71.6
Recovery as a percentage of disbursement	134.8	225.1	229.2	286.2	272.4	204.7

Note : Based on Table 4. 12

Moreover, with regard to the performance of the Corporation in 2008-'09, total applications received were for an assistance of Rs. 43,342.11 lakh and the sanctions and disbursements were Rs. 37,314 lakh and Rs. 23,339 lakh respectively. As far as the total recovery made during the year is concerned, it stood at Rs. 26,925 lakh. Altogether, the performance of the Corporation

indicates increased timely intervention in the process of industrialisation of the State of Kerala.¹³

PART C

Loan Disbursement and Repayment Systems of the KFC

This part attempts to assess the systems of loan disbursement and repayment followed by the KFC. The analysis is based on a survey covering 13 officials of the KFC who were selected on judgement sampling. Accordingly, one officer from the Head Office and three officers from each category of revenue districts under study were selected in the manner given in Table 4. 14.

Table 4. 14

Officials of the KFC Selected for Investigation

Region	General Manager	Deputy Manager	Branch Manager	Assistant Manger	Total
Head Office (Thiruvananthapuram)	01	Nil	Nil	Nil	01
Idukki Branch Office	Nil	01	01	01	03
Malappuram Branch Office	Nil	02	01	Nil	03
Thiruvananthapuram Branch Office	Nil	01	01	01	03
Ernakulam Branch Office	Nil	01	02	Nil	02
Total	01 (7.70)	05 (38.46)	05 (38.46)	02 (15.38)	13 (100)

Note : Figures in brackets represent percentage to total

As per Table 4. 14, it is clear that out of the total officials consulted, 7.70 per cent were General Manager, 38.46 per cent were Deputy Managers, 38.46 per cent were Branch Managers and 15.38 per cent were Assistant Managers.

IV. C. 1 Types of Financial Assistance

The Corporation offers both term-loans and working capital loans to the MSMEs. Assistance is given to the SME segment under the SME fund scheme also.¹⁴ *The State Government had taken major initiatives for revamping the economy of the State and announced special anti-recession package to the MSME sector through KFC. The traditional industries and MSME sector are offered loans at an attractive rate of 11% while the Gulf returnees are offered loans at a special rate of interest of 7%. KFC has also been made the Nodal Agency for revitalization of Public Sector Undertakings and the Corporation will sanction the loans to PSUs at a special rate of interest of 8.5%.¹⁵*

IV. C. 2 Limit of Loan Amount and the Basis of Fixing the Limit¹⁶

The limit of amount of loan sanctioned to an industrial unit is Rs.20 crore. This limit is determined as a percentage of the total cost of the project. However, the nature of security offered is also a determinant of the limit.

IV. C. 3 Identification of Eligible Borrowers

The Corporation identifies eligible borrowers in different ways, viz., (a) personal interview, (b) verification of applications, and (c) through other agencies like banks, local bodies, etc. All eligible beneficiary units of Idukki, Ernakulam and Malappuram districts are identified through personal interview and verification of applications for loans. But the case is different in Thiruvananthapuram district, where all methods mentioned are used for this purpose. 50 per cent of the officials selected from Thiruvananthapuram district opined that the beneficiaries were mainly identified through personal interview and verification of application; 25 per cent said that they were chosen with the help of other agencies like commercial banks, co-operative banks and local bodies, while 25 per cent of the officers stated that all the methods were followed for this purpose. Regarding priority of financial assistance to women entrepreneurs, the Corporation did not have a rigid or uniform policy. The response of the officials of Thiruvananthapuram, Idukki and Malappuram districts in this regard was in the negative. But 33.3 per cent of the officials of Ernakulam district responded in the affirmative. Likewise, Ernakulam district did prefer physically handicapped entrepreneurs also.

IV. C. 4 Procedures to be Followed to Get the Loan

1. Approaching the Corporation

In fact, the first step of the attempt for loan from the Corporation is the obtaining of the application form by the borrowers, for which they have to pay the nominal fee which varies with the loan slabs. In order to get relevant and reliable information, a quite elaborate and comprehensive proforma is supplied along with the application form. On registration of the application, actions on them will be initiated by the officials and in turn, the creditworthiness and suitability of the borrowers under the set parameters of the Corporation are verified and ensured. For this, the officials may pay frequent visits to the borrowers.

2. Visits of KFC Officials to the Borrowers Prior to Sanctioning the Loan

The KFC officials pay visits to the site of its borrower units prior to sanctioning the loan. Such visits are made to satisfy themselves as to the suitability of the location and site, transport facilities, etc. How many visits are made is subject to investigation. The response in this regard is presented in Table 4. 15.

Table 4. 15**Frequencies of Visits of the KFC Officials Prior to Sanctioning the Loans**

District	Frequency of visits				
	Once	Twice	Thrice	More	Total
Idukki	Nil	03(100)	Nil	Nil	03(23.1)
Malappuram	Nil	03(100)	Nil	Nil	03(23.1)
Thiruvananthapuram	01(25)	01(25)	01(25)	01(25)	04(30.7)
Ernakulam	Nil	Nil	Nil	03(100)	03(23.1)
Total	01(7.7)	07(53.8)	01(7.7)	04(30.8)	13(100)

Source : Primary data

Note : Figures in brackets show the percentage to total in respective rows

Table 4. 15 shows that 7.7 per cent of the selected officials opined that only one visit was made prior to sanctioning the loans. Officials of Ernakulam district made more visits. Facts do reveal that Ernakulam is an industrially developed district and hence it was included in the *category D* of KFC's classification which consists of the non-backward districts. From this, it is inferred that more visits of officials prior to sanctioning of loans helped identify the eligible or promising borrower units. The claims of the Corporation of having provided door-service to the interested units would have had enough justification if the corporation's officials had paid more visits to the sites/projects of the borrowers. In this case, it is found to be true with regard to Ernakulam district where more visits were made prior to sanctioning the loan. It can also be inferred that this attempt may perhaps be the main reason to have placed the district of Ernakulam in the *category D* which stands for non-backward districts. It is pertinent to remark that more visits and

on-the-spot investigation help in expediting the loan process, for one thing, and in inculcating confidence in the beneficiaries, for another. However, the Corporation has a monitoring cell to evaluate the projects financed by it.

IV. C. 5 Moratorium for Repayment of Loan ¹⁷

KFC gives a moratorium in the for the repayment of loan. It is given by taking into account factors like: income generation of the project, nature of operation of the unit, size of the unit, etc. Generally, a period ranging from one year to two years is registered as gestation period for manufacturing industries. On loans for acquisition of vehicles, only three months' time is treated as gestation period because the income generation from this project is possible within such a short period of time.

IV. C. 6 Repayment Schedule of Loans ¹⁸

Two schedules of time are followed for this purpose. One is monthly repayment and the other is quarterly. For both the principal sum and interest of loans given for acquisition of vehicles, repayment has to be made monthly, whereas for all other loans, repayment of principal sum is to be made monthly and that of interest to be made quarterly. The working capital loans are to be repaid in a period of five years and term loans within a period as per the agreement made. On all repayments as per schedule, a rebate of one per cent is given as incentive. Further, such entrepreneurs may be given additional loans and technical assistance for the successful implementation or survival of the project.

IV. C. 7 Rate of Interest ¹⁹

1. Reduction in Interest Rates for Existing Customers:

Loanees who are continuously in standard category for a minimum period of 3 years can avail themselves of reduction in rate of interest that is applicable for fresh loans, provided they obtain the minimum credit rating stipulated. The existing rates and revised rates are given in Table 4. 16.

Table 4. 16
Interest Rates for Existing Customers (2008)

Amount	Existing Rate (%)	Revised Rate (%)
For loans up to Rs. 50,000	11.25	9.25
For laons above Rs. 50,000 and up to Rs. 2 lakhs	11.75	9.75
For loans above Rs. 2 lakhs	14.50	12.50

Source : Annual Reports of KFC

2. Rate of Interest for Loans Disbursed on or after 15-12-2003

Rate of interest for Term Loans in respect of projects/activities eligible for assistance under general scheme is shown in Table 4. 17.

Table 4. 17

Rate of Interest for Loans Disbursed

	Amount	Rate (%)
1.	Up to Rs. 50,000/-	8.25
2.	Above Rs. 50,000/- and up to Rs. 2/- lakhs	8.75
3.	Above Rs. 2/- lakhs	11.50

Source : Annual Reports of KFC

Table 4. 18

**Rate of Interest for Term Loans in Respect of Project/Activities Eligible
for Assistance under TDMF and ISO 9000 Scheme**

	Amount	Rate (%)
1.	Up to Rs. 50,000/- (effective)	8.25
2.	Above Rs. 50,000/- and up to Rs. 2/- lakhs (effective)	8.75
3.	Above Rs. 2/- lakhs (effective)	11.50

Source : Annual Reports of KFC

3. Loans Eligible for Refinance from SME Fund :-

a. 10.5% to 11.5% depending on rating assigned with rebate of 1% for prompt repayment.

b. The interest rate of 10.5% with 1% rebate will be considered in respect of very good projects on selective basis. The above rate for SME Fund is effective from 02-03-2005.

4. For Special Schemes:-

For special schemes like short-term loans, working capital loans, financing of housing projects, civil contractors loan, Loan for TV serial production, the rate of interest will be 12.5% without rebate. Penal interest will be 2% of the defaulted amount for the defaulted period.

5. For Short Term Loan for Working Capital Purpose to New Hotels: 12.5%.

6. Revolving Fund Loans, Marketing of SSI Products and Services and Film Production : 11.5% without rebate.

7. Housing Villas and Apartment Complexes:-

11.5% with 1% rebate for prompt repayment.

8. Rebate:-

Rebate at 1% is allowed for prompt repayment except for special schemes.

9. NEF Loans:-

The rate of interest under NEF scheme will continue with 5%, and for default, 12.5% will be charged.

10. Other conditions:-

For default, 2% additional interest will be charged for the defaulted amount for such defaulted period in all cases.

11. Anti Recession Package :-

Loans are offered at attractive rates to persons who became jobless owing to the recession (See para IV.C.1).

The structure of interest rate of loans of the Corporation is found to be framed in such a way that prosperous customers can avail themselves of various benefits in terms of concessions, incentives, etc. Concessional rates are offered to some categories of loanees who suffer from various difficulties associated with the recent global recession.

Conclusion

Ever since its inception in 1956, the KFC has been discharging various financial operations to the industrial sector of the State. By now, it has sixteen branch offices across the State with the Head Office at Thiruvananthapuram. The management of this public sector undertaking is vested in the Board of Directors having thirteen members. The Chairman, who is accountable to the Board, is placed at the top. It has a full-time Managing Director with executive capacity.

The KFC still functions as a Government undertaking. The majority of its shares in value are held by the Government of Kerala (96.94 per cent). It permits the general public to subscribe to its shares. The SIDBI replaced the erstwhile IDBI as share holder. Its capital structure consists of both own capital and borrowed capital. It gives more weightage to debt capital. Its average

debt-equity ratio for the period is 5.02 : 1. Schemes of financial assistance of the Corporation cover a series of activities ranging from manufacture to marketing of goods and services.

Regarding the trend of loan operations, the role of the KFC in the process of industrialisation is found to be eroding year by year as the total amount disbursed along with the number of newly assisted units shows an AAG of (-)18.26 per cent for number of units and (-)8.96 per cent for amount for the years under study. When the trend of size-wise analysis of its operations is made, it is seen that the KFC prefers assistance to the non-SSIs as their AAG for the years under study is 3.22 per cent, against the (-)5.11 per cent AAG of the SSIs for the same period. Also, it is seen that it prefers financial assistance to the industrial units of non-backward districts. Regarding the choice of industry for assistance, it gives serious concern to disburse the loans only to the promising / prosperous industries. Facts reveal that on the average, 62 per cent of applications are sanctioned each year. However, the sanctions in the years show a decreasing trend with an AAG of (-)01.41 per cent. Regarding disbursement as a percentage of sanction, 77.3 per cent was the average and the AAG was (-)8.53 per cent, showing a declining trend over the years. Recovery, on the other hand, had an average AAG of 177 per cent with a comparatively low decreasing AAG of (-)3.76 per cent. Officials of the Corporation paid many visits to the borrower units prior to sanctioning the loan. (More visits of officials proved to have brought good results in the selection of promising customers.)

The KFC has the precedence of giving a Moratorium during the gestation period for loan repayment. The repayments are scheduled, taking into account various things associated with the performance of the borrower units. Further, the Corporation has the practice of changing the rates of interest to bifurcate the prosperous and non-prosperous entrepreneurs. Attractive interest rates are offered to face the challenge of the ongoing recession.

To conclude, the enterprises are assisted at every stage in their promotions and operations. Different schemes to suit the needs of the diverse investors are offered by the Corporation. Chapter five of the study is concerned with an investigation into how far the units approach KFC to obtain financial assistance and how far they succeeded with this source of finance.

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CHAPTER V

PATTERN, ORGANISATION AND WORKING OF BENEFICIARY UNITS

- V. A DEMOGRAPHIC PROFILE OF THE SELECTED
 BENEFICIARIES**
 - V. B WORKING OF THE BENEFICIARY UNITS AND
 REALISATION OF OBJECTIVES BY THEM**
 - V. C LOANEES' PERCEPTION ON THE ASSISTANCE
 FROM THE KFC FOR ENTREPRENEURIAL GROWTH**
 - V. D TESTING OF HYPOTHESES**
- CONCLUSION**
- REFERENCES**

CHAPTER V

PATTERN, ORGANISATION AND WORKING OF BENEFICIARY UNITS

Incepted in 1956, the Kerala Financial Corporation has completed about five and a half decades of its operations in 2009. Definitely, it is an important task to evaluate the performance of its borrower units in this wide span of life. How far the Corporation has succeeded in attracting a new group of entrepreneurs in the industrial activity is a matter of concern. For quite some time, the Kerala Financial Corporation has gone on to finance and assist otherwise the activities of well-established units. Initially, it had the custom of assisting the existing units and, the new enterprises were out of the ambit of its assistance.

As finance is considered the life-blood of industry, no industrial unit can attain its fullest possible potential in terms of survival, expansion, modernisation, etc., without the timely provision of required doses of money. This fact compelled the KFC to effect a series of changes in its functioning. An emphasis was laid on attracting the person with industrial initiative. With this end in view, the Corporation incorporated many simplified and transparent steps in its lending schemes. Such steps include relaxation in its norms or even diversification of new schemes in favour of the enterprises. Different packages are being offered by the Corporation. It becomes significant to

ascertain the background of the beneficiary units, nature of units promoted, size of units, modes of assistance, etc. With a view to assessing the functioning of the KFC against this background and its image amongst the borrower units on the basis of their experience, the present study seeks to make an analysis and interpretation in this direction. In order to make such an attempt, a field study was conducted by using a pre-structured interview schedule for the borrower units with 53 questions that had been devised, taking into consideration the different aspects like perceptions, observations and criticisms of the general public, industrial community and the beneficiary units on the performance of DFIs like the KFC.

In order to select four sample districts, the KFC's grouping of the 14 revenue districts-on the basis of industrial development-into four categories, viz., A, B, C and D was taken as the base. Selection of four out of fourteen revenue districts was made on *stratified sampling* method in such a way that one revenue district each from all four categories was included in the sample. Accordingly, four districts as given in Table 5. 1 were selected.

Table 5. 1
Selection of Sample Districts

Sl.No	Districts	Category
1.	Idukki	A
2.	Malappuram	B
3.	Thiruvananthapuram	C
4.	Ernakulam	D



A total of 60 industrial units from out of the population - 962 units of the four sample districts - were identified for this purpose from the list of 962 industrial units (Idukki - 145, Malappuram - 145, Thiruvananthapuram - 227 and Ernakulam - 445). They were selected through the respective district offices of the Corporation. From the 60 units an absolute number of 15 units were selected from each district by *simple random sampling* by applying the lottery method. Accordingly, all units of each district were numbered consecutively and these numbers were written on separate slips of identical size and shape made of yellow paper. These paper slips were folded uniformly

and mixed thoroughly in a box. Then a blindfold selection of 15 slips each from the selected districts was made, as shown in Table 5. 2.

Table 5. 2
Population and Sample Size of the Study

Sl.No	Sample districts	Population for the study	Sample units
1.	Iddukki	145	15
2.	Malappuram	145	15
3.	Thiruvananthapuram	227	15
4.	Ernakulam	445	15
Total units		962	60

Source of population : Annual Reports of KFC and hearsay from its district officials

The analysis is divided into four parts. In part A, the demographic profile of the selected entrepreneurs is presented and in part B, the profile of the units is analysed. Part C is concerned with the analysis of the various aspects about the working of the units financed by the KFC. Part D contains testing of various hypotheses formulated.

PART A

V. A Demographic Profile of the Selected Beneficiaries

An enquiry into what encouraged the entrepreneurs to proceed with certain industrial activities, suggests that factors like gender, educational qualification, experience, etc., influenced them to a certain extent. Here an attempt is made to look into how far each of such factors contributed in provoking the entrepreneurs for the adoption of manufacturing activity.

V. A . 1 Gender

The identification of various factors that provoked an entrepreneur to start an industrial activity starts with a probe into the gender of the entrepreneurs. In our economic set-up, there is a convention of male domination. The situation goes on despite the near total literacy and remarkable achievements in education and health in the State and the presence of special schemes of KFC for women entrepreneurs. The results of the enquiry pertaining to the gender of entrepreneurs are exhibited in Table 5. 3.

Table 5. 3

Gender-wise Distribution of Entrepreneurs per District

Gender	Idukki	Malappuram	Thiruvananthapuram	Ernakulam	Total
Male	12 (80.0)	14 (93.3)	15 (100)	15 (100)	56 (93.3)
Female	3 (20.0)	1 (6.7)	Nil	Nil	4 (6.7)
Total units	15 (100)	15 (100)	15 (100)	15 (100)	60 (100)

Source : Primary data

Note : Figures in parantheses show percentage to the total in respective columns

Table 5.3 indicates that 93.3 per cent of the selected entrepreneurs were male, while only 6.7 per cent were female. From this, it is inferred that only a nominal number of women entrepreneurs came forward with entrepreneurial initiative and approached the financial institutions for assistance. Though women in Kerala constituted 51.4 per cent of the total population of 31.8 million in 2001, the data-based review of the status of women in terms of industrial activity shows greater gender disparities. ¹

V. A. 2 Educational Qualification

Institutional assistance leads to the emergence of new entrepreneurs with different educational backgrounds. Educational qualification is expected to be directly related to industrial initiative. An enquiry in the light of this perception was carried out. The information gathered is given in Table 5. 4.

Table 5. 4
Education-based Distribution of Entrepreneurs per District

Educational Qualification	Idukki	Malappuram	Thiruvananthapuram	Ernakulam	Total
School level	4(26.4)	7(46.7)	5(33.3)	3(20.0)	19(31.7)
Vocation	1(6.7)	6(40.0)	7(46.7)	Nil	9(15.0)
College level	5(33.3)	1(6.7)	2(13.3)	8(53.3)	21(35.0)
Professional Degree	5(33.3)	1(6.7)	1(6.7)	4(26.7)	11(18.3)
Total units	15(100)	15(100)	15(100)	15(100)	60(100)

Source : Primary data

Note : Figures in parantheses show percentage to the total in respective columns

From Table 5. 4, it is clear that 35 per cent of the selected entrepreneurs had undergone college level education, 31.7 per cent had gone only upto school level, and 15 per cent are qualified vocationally, whereas 18.3 per cent possessed professional degrees. From this, it may be observed that possession of vocational degree or professional degree did not become a basis for industrial initiative or start. Persons with educational qualifications which do not have clear-cut relationship with manufacturing but are otherwise useful in manufacturing activities such as graduation and post-graduation (35 per cent) in commerce, science, information technology, etc. and school level education (31.7 per cent) were found to be the real entrepreneurs. Hence it can be concluded that the educational qualification of entrepreneurs does not make any impact on the choice of enterprise.

V. A. 3 Impact of Foreign Income of Entrepreneurs in

Establishing Industrial Units

The State of Kerala is characterised by a special economic liquidity owing to its remittances from abroad. Emigration of Keralites remains strong. A study conducted by the CDS, Thiruvananthapuram, in 2004 shows that the number of emigrants went up by 35 per cent in the preceding five years from 13.6 lakh in 1999 to 18.4 lakh in 2004. During 2005, a total of 1.25 lakh workers went abroad in search of job, constituting 22.8 per cent of the 5.49 lakh emigrants from the country ². Unfortunately, as a result of the recent global meltdown, the number of gulf returnees is on the increase now.

However, it is relevant to explore how far the State has succeeded in diverting such income towards industrial activity, especially in the liberalised economic scenario. Whether those who had income from abroad came forward with industrial initiative was investigated. The information gathered is presented in Table 5. 5.

Table 5. 5
Classification of Entrepreneurs on the Basis of Income from Abroad

Income Status	Idukki	Malappuram	Thiruvanantha puram	Ernakulam	Total
Having income from foreign country	2(13.3)	Nil	Nil	1(6.67)	03(05)
Having no such income	13(66.67)	15(100)	15(100)	14(93.33)	57(95)
Total units	15(100)	15(100)	15(100)	15(100)	60(100)

Source : Primary Data

Note : Figures in brackets represent percentage to total in respective columns

Table 5. 5 depicts that 95 per cent of the selected entrepreneurs had no income abroad and only 5 per cent had income from foreign countries. From this, it is understood that income from foreign country does not normally become a base for starting an industrial unit by a particular entrepreneur in the State of Kerala.

V. A. 4 Previous Experience of Entrepreneurs

Experience is an important factor that influences a person to start an industrial activity. This factor is as good as or even better than educational qualification. Previous experience of a prospective entrepreneur does affect the choice of an activity. Further, it is expected that the nature of enterprise and performance of the entrepreneur have been affected by his previous experience. The information on the impact of experience in this regard is presented in Table 5. 6.

Table 5. 6

Classification of Entrepreneurs on the Basis of Previous Experience

Experience	Idukki	Malappuram	Thiruvanantha puram	Ernakulam	Total
As manufacturer	2(13.3)	9(60.0)	3(20.0)	10(66.7)	24(40.0)
As trader	7(46.7)1	4(26.7)	4(26.7)	2(13.3)	(17(28.3)
As agent	3(20.0)	Nil	Nil	3(20.0)	6(10.0)
No experience	3(20.0)	2(13.3)	8(53.3)	Nil	13(21.7)
Total units	15(100)	15(100)	15(100)	15(100)	60(100)

Source : Primary Data

Note : Figures in brackets represent percentage to total in respective columns

As per Table 5.6, 78.3 per cent of the entrepreneurs came from business-related background. Among them, 40.0 per cent had experience as manufacturers, while 28.3 per cent had experience as traders and 10.0 per cent were agents. The remaining 21.7 per cent did not have any kind of experience

prior to entry into the present business. From this, it is inferred that previous experience in manufacturing and trading has led more entrepreneurs to start their own industries and to approach the KFC for financial assistance .

PART - B

V. B Working of the Beneficiary Units and Realisation of Objectives by Them

V. B. 1 Nature of Business

For the purpose of analysis, the nature of business is grouped into four, viz., manufacturing, trading, servicing, and others. Manufacturing activity includes manufacture of food, mining, generation of electricity, etc. Trading consists of hotel industry, supply of electricity, etc. Servicing includes transportation, repairs and maintenance of machinery, provision of weigh-bridge facility, etc., and others include activities like research and development of any process or product, equipment leasing, TV serial production, etc. The KFC has listed all activities that come within its framework for assistance, into a total of 30 in number. (*See para 3 of part A of Chapter IV*). The 60 units selected for the study are grouped into four as shown in Table 5. 7.

Table 5.7**Classification of Units on the Basis of Nature of Business**

Nature of business	Idukki	Malappuram	Thiruvananthapuram	Ernakulam	Total
Manufacturing	2(13.3)	9(60.0)	3(20.0)	8(53.3)	22(36.7)
Trading	4(26.7)	2(13.3)	4(26.7)	1(6.7)	11(18.3)
Servicing	3(20.0)	4(26.7)	7(46.7)	4(26.7)	18(30.0)
Others	6(40.6)	Nil	1(6.7)	2(13.3)	9(15.0)
Total units	15(100)	15(100)	15(100)	15(100)	60(100)

Source : Primary data

Note : Figures in brackets denote percentage to total in respective columns

While analysing Table 5.7, it could be observed that 36.7 per cent of the borrower units belonged to manufacturing enterprise, while 30 per cent belonged to servicing units. The units belonging to trading and other kinds of business amounted to 18.3 per cent and 15.0 per cent respectively. From this, it is clear that a major portion of the loans given by the KFC is for manufacturing activities. It is followed by servicing industries, which constitute different segments like transportation, hotels, etc.

V. B. 2 Nature of Product

The Kerala Financial Corporation has classified the industries/products into eighteen major categories. This study confines these eighteen types of products into eight heads, viz., Electrical, Electronic, Food items, Chemicals, Wood, Metallic Engineering, Agro-based and Others. Distribution of the sixty

units under study into various classes on the basis of nature of product is given in Table 5. 8.

Table 5. 8
Classification of Borrower Units on the Basis of Nature of Products

Nature of products	Idukki	Malappuram	Thiruvananthapuram	Ernakulam	Total
Electrical	Nil	Nil	Nil	1(6.7)	1(1.7)
Electronic	Nil	Nil	2(13.3)	1(6.7)	3(5.0)
Food Items	1(6.7)	2(13.3)	4(26.7)	1(6.7)	8(13.3)
Chemicals	Nil	2(13.3)	Nil	Nil	2(03.3)
Wood	Nil	3(20.0)	1(6.7)	Nil	4(6.7)
Metallic engineering	1(6.7)	1(6.7)	4(26.7)	Nil	6(10.0)
Agro-based	2(13.3)	Nil	Nil	8(53.4)	10(16.7)
Other industries	11(73.3)	7(46.7)	4(26.7)	4(26.7)	26(43.3)
Total units	15(100)	15(100)	15(100)	15(100)	60(100)

Source : Primary data

Note : 1. Figures in brackets denote percentage to total in respective columns

2. Other Industries include a wide range of industries like textiles, paper and paper products, Rubber, Leather, Hospitals, Metals, Fertiliser, Building Materials, etc.

At the time of investigation, it could be seen that certain activities included under the head 'other industries' were rarely undertaken. Rather than presenting individually, let them be grouped into one head. From Table 5. 8, it is clear that food items which form 13.3 per cent occupied the first position with regard to the nature of product of the assisted units. It was followed by metallic engineering with 10.0 per cent and wood-

based industries with 6.7 per cent. In short, a wide range of products is chosen by the entrepreneurs. The entrepreneurs under study had promoted modern sector enterprise in almost all fields of manufacturing. However, an exception was a few textile units which were based on conventional methods. But even such units use modern technology for production. Traditional industries like cement, sugar, etc. had not been undertaken by anybody. From this, it can be inferred that the KFC encourages modern sector enterprises rather than those of the conventional sector. Further, all products and industries come within its ambit for giving assistance.

5. B. 3 Reasons for Having Selected a Particular Business

On questions regarding the choice of their particular business, the respondents looked a bit uneasy and confused. Many of them had ready-made answers. Their responses are shown in Table 5. 9.

Table 5. 9**Reasons for Selecting a Particular Business by the Borrower**

Motivated by	Idukki	Malappuram	Thiruvanantha puram	Ernakulam	Total
Self	11(73.3)	10(66.7)	11(73.3)	10(66.7)	42(70.0)
Friends and relatives	Nil	2(13.3)	1(6.7)	1(6.7)	4(6.7)
Lack of similar units in the locality	Nil	Nil	3(20.2)	Nil	3(5.0)
Self and lack of similar units	1(6.7)	1(6.7)	Nil	Nil	2(3.3)
Others (KFC officials)	Nil	Nil	Nil	3(20.0)	3(5.0)
DIC	3(20)	2(13.3)	Nil	1(6.7)	6(10)
Total units	15(100)	15(100)	15(100)	15(100)	60(100)

Source : Primary data

Note : Figures in brackets denote percentage to total in respective columns

As per Table 5.9, it is clear that out of the 60 respondents, 42 (70 per cent) categorically admitted having selected their business on self-motivation and 6.7 per cent as per the advice of friends and relatives. However, 5 per cent stated that they had been induced by the KFC officials to select the business. From this analysis, it is understood that the lion's share of entrepreneurs had selected their business because of self-motivation. Their experience and other elements had led them to select a particular industry. From this, it is inferred that the entrepreneurs under study have been inventive and innovative.

V. B. 4 Difficulties in Starting / Running the Unit

To start an industrial unit is not as easy as one thinks. A series of formalities have to be undergone in this regard. It starts from getting the No Objection Certificate from the local body. However, all entrepreneurs might not have confronted much difficulties. The information availed in this regard is presented in Table 5. 10.

Table 5. 10

Difficulties Associated with Starting/Running the Unit

Response	Idukki	Malappuram	Thiruvanantha puram	Ernakulam	Total
No difficulty	15(100)	Nil	3(20.0)	8(53.3)	26(43.3)
There is difficulty	Nil	15(100)	12(80.0)	7(40.7)	34(56.7)
Total units	15(100)	15(100)	15(100)	15(100)	60(100)

Source : Primary data

Note : 1. Units of Idukki district had no problems

2. Figures in brackets denote percentage to total in respective columns

Table 5.10 shows that 43.3 per cent of the units did not confront any kind of difficulty either in starting the unit or in running it, while 56.7 per cent of entrepreneurs faced various difficulties in opening and operating the unit. This fact leads to the conclusion that despite the presence of various difficulties, the entrepreneurs set up their industrial units. This is only because of their mission and vision of the particular industrial activity.

V. B. 5 Size of the Unit

The Kerala Financial Corporation is providing term loans to small and medium-scale industrial units in the State. For the purpose of provision of financial assistance, it has classified the units into two categories, viz., SSIs (MSMEs) and non-SSIs. With a view to having more clarification, this study classifies the units on the basis of size into three, viz., Tiny, SSI and Medium sized. The 60 units under study are classified accordingly as is shown in Table 5. 11.

Table 5. 11
Classification of Borrower Units on the Basis of Size of Units

Size of units	Idukki	Malappuram	Thiruvananthapuram	Ernakulam	Total
Tiny	7(46.7)	Nil	2(13.3)	1(6.7)	10(16.7)
Medium sized	5(33.3)	14(93.3)	10(66.7)	12(80.0)	41(68.3)
SSI	3(20.0)	1(6.7)	3(20.0)	2(13.3)	9(15.0)
Total units	15(100)	15(100)	15(100)	15(100)	60(100)

Source : Primary Data

Note : Figures in brackets represent the percentage to total in respective columns

From Table 5. 11, it is observed that the major share of the borrower units belonged to medium-sized which amounted to 68.3 per cent. The presence of both tiny and small-sized units was more or less equal, which came to 16.7 per cent and 15.0 per cent respectively. Had the classification been made as SSIs and non-SSIs as was done by the KFC, the number of SSIs will increase for the reason that tiny units are also included in it. Then also the

number of non-SSIs is much higher. From this, it is inferred that the KFC encourages the non-SSIs units more.

V. B. 6 Form of the Organization

Three different forms of organisations are selected for analysing the service of KFC. These forms are classified in two-way as shown in Table 5.12.

Table 5.12
Form of Organisation-wise Classification of Units

Form of organization	Idukki	Malappuram	Thiruvananthapuram	Ernakulam	Total
Sole proprietorship	7(46.7)	2(13.3)	12(80)	6(40.0)	27(45)
Partnership	3(20.0)	7(46.7)	3(20)	2(13.3)	15(25)
Company	5(33.3)	6(40)	Nil	7(46.7)	18(30)
Total units	15(100)	15(100)	15(100)	15(100)	60(100)

Source : Primary data

Note : Figures in brackets denote percentage to total in respective columns

Table 5.12 depicts that 45 per cent of the borrower units belonged to the sole proprietorship form of organisation, 25 per cent to the partnership form and 30 per cent belonged to the company form. From this, it is inferred that the lion's share of assistance given by the KFC is enjoyed by non-corporate entities.

V. B. 7 Ownership of Premises

It is worth noting to enquire whether ownership of the required premises becomes a basis for having undertaken the present industrial activity. Generally, it is presumed that entrepreneurs who have their own premises usually come forward with industrial initiative. The investigation was carried out to know whether the premises were owned or rented. The information obtained in this regard is presented in Table 5. 13.

Table 5. 13

Classification of Borrower Units on the Basis of Ownership of Premises

Status	Idukki	Malappuram	Thiruvanantha puram	Ernakulam	Total
Owned	14(93.3)	15(100)	14(93.3)	13(86.7)	56(93.3)
Rental	1(6.7)	Nil	1(6.7)	2(13.3)	4(6.7)
Total units	15(100)	15(100)	15(100)	15(100)	60(100)

Source : Primary data

Note : Figures in brackets denote percentage to total in respective columns

Table 5. 13 indicates that 93.30 per cent of the borrower units operated in owned premises whereas, only 6.7 per cent operated in rented premises. From this, it is inferred that those who have their own premises readily come forward for the promotion of industrial units in the State of Kerala and they approach the FIs for financial assistance.

V. B. 8 Generation of Employment

The details of the number of workers employed in the sample units for the period under study are presented in Table 5. 14.

Table 5. 14
Details of Workers Employed During 2002-'07

Year	Male				Female				Total		
	N	\bar{x}	σ	C.V (%)	N	\bar{x}	σ	C.V (%)	\bar{x}	σ	C.V (%)
2002-'03	588	9.28	15.53	167.39	165	2.74	7.96	290.80	9.57	20.63	215.65
2003-'04	534	8.90	15.01	168.61	163	2.71	7.88	291.22	9.90	20.59	207.97
2004-'05	540	9.02	15.06	167.01	175	2.91	8.49	291.55	10.40	21.29	204.69
2005-'06	541	9.02	14.55	161.32	183	3.05	8.57	280.61	11.13	21.22	190.64
2006-'07	542	9.02	15.46	171.45	194	3.23	8.61	266.74	11.45	21.99	192.08

Source : Primary data

Note : N = Number; \bar{x} = Mean; σ = Standard Deviation and C.V. = Co-efficient of Variation

From Table 5. 14, it is clear that a large number of employment opportunities have been generated due to the intervention of the KFC in the process of industrialisation. As far as the number of workers is concerned, it was more consistent in the year 2005-'06 as the C.V for this year was lower (male workers - 161.32, female workers - 280.61 and total workers - 190.64) as compared to the C.V. for the other four years. With regard to inconsistency in number of workers, it was the highest in 2006-'07 for male workers with a C.V. of 171.45 per cent, the highest in 2004-'05 for female

workers with a C.V of 291.55 per cent, and the highest in 2002-'03 for the total workers with a C.V. of 215.65 per cent.

V. B. 9 Number of Additional Mandays Generated

The details of additional mandays of work generated by the beneficiary industrial units per year pursuant on the assistant from KFC are depicted in Table 5.15.

Table 5. 15
Details of Additional Mandays Generated

Year	\bar{x}	σ	C.V (%)
2002-'03	314.24	60.17	19.15
2003-'04	316.02	58.95	18.65
2004-'05	312.88	59.65	19.06
2005-'06	298.33	74.43	24.95
2006-'07	293.46	81.21	27.67

Source : Primary data

From Table 5. 15, it is clear that it was in 2003-'04 (with a mean of 316.02) that the industrial units generated more additional mandays as compared to the other years under study. Regarding consistency or otherwise of mandays generated by the units, it was more consistent in 2003-'04, which year is represented by a lower C.V. of 18.65 per cent and it was more inconsistent in 2006-'07 which year is represented by a higher C.V. of 27.67 per cent.

V. B. 10 Financial Profile of the Units

The financial profile of the assisted units is analysed in terms of investment made in them. The total investment is classified into two, viz., loan from the KFC and assistance from other sources. Further, how much of these two sources has been invested in the working capital and fixed capital is also studied as shown in Table 5. 16.

Table 5. 16

Financial Assistance Availed by Industrial Units (Rupees in Lakh)

Measure	From KFC		Other Sources		Total Capital
	Working capital	Fixed capital	Working capital	Fixed capital	
\bar{x} (Rupees)	19.10	15.21	17.36	8.61	41.8
Standard Deviation(σ)	23.31	17.37	47.15	47.15	62.25
Co-efficient of Variation (%)	122.06	114.24	271.61	197.65	148.85

Source : Primary data

Table 5. 16 depicts that while KFC's assistance came to an average investment of Rs. 19.10 lakh in the working capital, the investment in working capital out of assistance from other sources came only to Rs.17.36 lakh on the average. Likewise, with regard to investment in fixed capital, KFC's assistance was used on the average at Rs. 15.21 lakh and assistance from other source on the average at Rs. 8.61 lakh. From this, it is concluded that the industrial units on the average approached the KFC more for financial assistance. Further, the average of total investments of the 60 units under study came to Rs. 41.8 lakh.

With regard to consistency, investment of KFC's assistance in fixed capital was seen more consistent than any other investment / source, as it was represented by the least C.V. which amounted only to 114.24 per cent. The inconsistency in this regard was the highest for investment of funds from other sources in working capital as it was represented by a higher C.V. of 271.61 per cent.

V. B. 11 Capital, Revenue, Expenses and Profits of the Beneficiary Units

Table 5. 17
Total Capital and Working Capital (Rupees in lakh)

Year	Total Capital			Working Capital		
	\bar{x} (Rs.)	σ	C.V (%)	\bar{x} (Rs.)	σ	C.V (%)
2002-'03	26.06	25.09	96.27	17.19	36.64	178.26
2003-'04	24.69	23.94	96.97	13.28	18.70	140.84
2004-'05	51.16	148.85	290.96	19.66	26.38	134.17
2005-'06	47.56	139.90	294.17	19.27	25.71	133.45
2006-'07	50.46	136.73	270.95	21.57	26.25	121.68

Source : Primary data

From Table 5. 17, it is clear that the total capital of the sample units in total was larger in 2004-'05 with an average of Rs. 51.16 lakh (for each unit), whereas such a higher position was there in 2006-'07 for working capital, when the average amount was Rs. 21.57 lakh (for each unit). However, a better

degree of consistency of total capital was seen during 2002-'03 and 2003-'04 with a C.V. of 96.27 per cent and 96.97 per cent respectively. But it showed high inconsistency during the next three years with 290.96 per cent C.V. in 2004-'05, 294.17 per cent C.V. in 2005-'06 and 270.95 per cent C.V. in 2006-'07.

Table 5. 18

Gross Profit and Net Profit (Rupees in lakh)

Year	Gross Profit			Net Profit		
	\bar{x} (Rs.)	σ	C.V (%)	\bar{x} (Rs.)	σ	C.V (%)
2002-'03	4.55	8.92	195.83	4.04	8.87	219.34
2003-'04	9.39	13.50	119.29	3.52	4.20	143.07
2004-'05	5.25	8.40	160.04	4.86	9.07	186.72
2005-'06	5.93	9.09	153.25	5.64	9.67	171.62
2006-'07	5.75	8.38	145.68	5.22	8.03	153.81

Note : 1. Estimate from primary data

2. Let the yearly \bar{x} be denoted as $\bar{x}_1, \bar{x}_2, \bar{x}_3, \bar{x}_4$ and \bar{x}_5

From Table 5. 18, it is clear that the mean Gross Profit of the units under study for five years did not show a uniformity, i.e., $\bar{x}_1 \neq \bar{x}_2 \neq \bar{x}_3 \neq \bar{x}_4 \neq \bar{x}_5$. However, the Gross Profit for the past three years was more or less equal with a corresponding mean of Rs. 5.25 lakh, Rs. 5.93 lakh and Rs. 5.75 lakh respectively. Wide fluctuations did exist in the mean Gross Profit of 2002-'03 and 2003-'04, which were Rs. 4.55 lakh and Rs. 9.39 lakh

respectively. More or less similar was the situation with regard to Net Profit also.

Table 5. 19
Sales Revenue and Expenses (Rupees in lakh)

Year	Sales Revenue			Expenses		
	\bar{x} (Rs.)	σ	C.V (%)	\bar{x} (Rs.)	σ	C.V (%)
2002-'03	11.25	15.36	136.51	8.17	13.57	166.21
2003-'04	11.16	15.73	140.95	9.39	13.50	143.79
2004-'05	11.75	15.65	133.24	11.50	15.70	136.46
2005-'06	12.79	19.74	154.32	13.14	19.97	151.93
2006-'07	14.57	25.01	171.72	13.60	21.06	154.85

Note : 1. Estimate from primary data

2. Let the yearly \bar{x} be denoted as $\bar{x}_1, \bar{x}_2, \bar{x}_3, \bar{x}_4$ and \bar{x}_5

From Table 5. 19, it is clear that both sales revenue and expenses did not show a uniformity over the years, as $\bar{x}_1 \neq \bar{x}_2 \neq \bar{x}_3 \neq \bar{x}_4 \neq \bar{x}_5$. However, a hopeful trend was visible with regard to sales revenue as it showed an increasing trend (from Rs. 11.25 lakh to Rs. 14.57 lakh). Expenses, on the other hand, exhibited an adverse position as an increasing trend was visible. With regard to consistency of sales revenue, it was more consistent in 2004-'05 with a low C.V. of 133.24 per cent and inconsistent in 2006-'07 with a C.V. of 171.72 per cent. Regarding expenses, inconsistency was more in 2002-'03 with a C.V. of 166.21 per cent.

Table 5.20
Financial, Cost and Accounting Information (Rupees in lakhs)

Industry	Number of units	Own capital	Debt capital	Total capital	Current Asset	Current Liabilities	Sales (Revenue)	Fixed cost	Variable cost	Total cost	Operating Expenses	Gross profit	Net Profit
1	2	3	4	5	6	7	8	9	10	11	12	13	14
Electrical	01	28.2	12.4	40.6	29.8	15.3	120.2	50.5	38.1	88.6	20.5	31.6	18.6
Electronic	03	293.0	97.5	390.5	254.5	120.2	410.3	196.3	99.1	295.4	72.1	114.9	66.4
Food items	08	205.4	81.2	286.6	162.6	50.1	692.1	206.5	320.2	527.1	105.6	165.0	96.7
Chemical	02	129.5	49.8	179.5	100.4	42.3	400.2	1266.4	193.8	320.2	60.4	80.0	71.8
Wood	04	229.5	100.4	329.9	116.5	61.4	716	151.2	365.0	516.2	93.6	200.3	137.7
Metallic Engineering	06	315.5	110.8	426.3	230.9	120.6	913.5	388.9	305.1	694.0	172.3	219.5	200.8
Agro based	02	30.5	14.7	45.2	26.2	14.3	112.6	40.6	39.0	80.5	24.0	32.1	22.6
Textiles	01	103.4	41.8	145.2	69.7	25.4	600.9	192.7	290.6	483.3	150.3	117.6	86.8
Studio	05	212.2	53.6	265.8	151.9	60.3	697.9	318.6	169.2	487.8	130.6	210.1	160.6
Rubber	05	48.5	7.1	55.6	14.3	7.6	366.5	176.4	114.3	290.7	56.4	75.8	26.7
Building Materials	01	134.3	54.6	188.9	100.6	51.6	504.2	216.4	129.2	345.6	110.9	158.6	98.6
Paper	06	206.2	15.0	271.2	95.2	40.9	616.3	141.9	301.6	220.8	74.5	89.6	67.5
Fertiliser	05	118.9	31.9	150.8	80.7	50.6	310.4	84.5	136.3	220.8	74.5	89.6	67.5
Other	05	94.2	34.6	128.8	93.5	38.0	216.3	96.5	66.2	162.7	40.1	53.6	38.6

Source : Secondary data

Table 5.21
Performance Indicators of Various Industries (Rupees in Lakh)

Industry	Working capital (Rupees)	Current Ratio	G/P Ratio	N/P Ratio	Operating ratio	Operating Profit Ratio	DE Ratio	ROI	BEP SALES (Rs.)	Contribution	P/V Ratio	Margin of safety (%)
Electrical	14.5	1.94	26.3	15.5	90.8	9.2	0.44	.66	73.9	82.1	.68	38.5
Electronic	134.3	2.1	28.8	16.2	89.7	10.3	0.33	.23	258.8	311.2	.76	36.9
Food items	112.5	3.2	23.8	14.0	91.4	8.6	0.40	.47	384.7	371.5	.54	44.4
Chemicals	58.1	2.4	20.0	18.0	95.1	4.9	0.38	.56	245.1	206.4	.52	38.8
Wood	55.1	1.9	28.0	19.5	85.0	15.0	0.43	.60	308.0	351.0	.49	56.9
Metallic Engineering	110.3	1.9	24.0	22.0	95.0	5.0	0.35	.64	538.9	608.4	.66	36.1
Agro based	11.9	1.8	28.5	20.1	93.0	7.0	0.48	.74	62.9	73.6	.65	44.1
Textiles	44.3	2.7	19.5	14.4	92.0	8.0	0.40	.83	373.2	310.3	.52	37.9
Hotels	29.0	2.2	23.5	21.9	93.8	6.2	0.67	.45	24.0	58	.49	79.7
Studio	91.6	2.5	30.1	23.0	89.0	11.0	0.25	.75	420.6	528.7	.75	39.7
Rubber	6.7	1.9	20.6	17.4	88.0	12.0	0.15	.55	55.9	252.2	.69	84.7
Leather	7.10	1.8	24.0	14.5	93.0	7.0	0.23	.55	56.1	64.1	.80	29.8
Building Materials	49.0	1.9	31.5	20.0	90.0	10.0	0.41	.73	291.0	375	.74	42.3
Papers	54.3	2.3	28.0	24.9	93.1	6.9	0.40	.73	291.0	375	.74	42.3
Fertiliser	30.1	1.6	28.9	21.7	95.0	5.0	0.26	.56	150.7	174.1	.56	51.4
Others	55.5	2.5	24.8	17.8	94.0	6.0	0.36	.41	139.1	150.1	.69	76.2

Estimated from data vide Table 5.20

V. B. 13.1 Liquidity:

Liquidity of various industries financed by the KFC is measured with the help of current ratio. The minimum of 'two-to-one' current ratio is often considered desirable. As the table 5. 21, industries, viz., Electronic (2.1), Food items (3.2), Chemicals (2.4), Textiles (2.7), Hotels (2.2), Studio (2.5), Papers (2.3) and other industries (2.5) have a higher current ratio which means that these industries maintain high liquidity position. However, the fact has to be kept in mind that the current assets of these industries consist of stock which is the least liquid of current assets. Therefore, such a high current ratio is not at all favourable, whereas industries like Electricals (1.94), Wood (1.9), Metallic Engineering (1.9), Agro-based (1.8), Rubber (1.9), Leather (1.8), and Building Materials (1.9) have a current ratio very near to the standard 2:1 laid down for current ratio. Therefore, it can be concluded that these industries have a favourable current ratio which means that they have an efficient working capital management. Fertiliser industry, on the other hand, is characterised by a poor liquidity position as it has a low current ratio which amounts only to 1.6.

V. B. 13.2 Gross Profit on Sales :

This is measured with the help of Gross Profit ratio. Accounting experts favour a G/P ratio of 25 per cent. Table 5. 21 indicates that industries like Electrical, Electronic, Wood, Agro-based, Studio, Building materials, Papers and Fertiliser have a higher G/P ratio which indicates that these industries

have adequate gross profit to cover the operating expenses and to provide for fixed charges and building-up reserves, as these have a G/P ratio of 26.3 per cent, 28.0 per cent, 28.0 per cent, 28.5 per cent, 30.1 per cent, 31.5 per cent, 28.0 per cent and 28.9 per cent respectively. Industries which include Food Items (G/P ratio 23.8 per cent), Chemicals (G/P ratio 20 per cent), Matallic Engineering (G/P ratio of 24.0 per cent), Textiles (G/P ratio of 19.5 per cent), Hotels (G/P ratio of 23.5 per cent), Rubber (G/P ratio of 20.6 per cent), Leather (G/P ratio of 24.0 per cent), and Other Industries (G/P ratio of 24.8 per cent) are characterised by low gross profit ratio indicating unfavourable purchasing and mark-up policies which are due to the inability of management to enhance sales volume.

V. B. 13. 3 Net Income or Profit :

This is measured with the help of Net Profit ratio. Accounting experts advocate an N/P ratio of 10 to 15 per cent. As per Table 5. 21, all industries are characterised by high N/P ratio, which indicates that these industries leave a very good portion of sales to the proprietors after deducting all costs, charges and expenses.

V. B. 13. 4 Absorption of Net Sales :

How far the net sales are absorbed by the cost of goods sold and how high are operating expenses can be measured with the help of Operating Ratio (O.R). A lesser OR is favourable to industries. Generally, the OR is expected to touch a percentage of 75 to 85. As per Table 5. 21, only Wood industry has a

comfortable situation of absorption of net sales by the cost of goods sold and operating expenses as it is characterised by an Operating Ratio of 85 per cent. All other industries show a less favourable OR as it exceeds 85 per cent.

V. B. 13. 5 Profitableness on Sales :

This can be measured with the help of Operating Profit Ratio. It is the difference between 100 and the Operating Ratio. As a low OR is preferred, naturally a high operating profit ratio should be there. An operating profit ratio of 15 per cent or more is an indicator of profitableness of sales. As apparently from Table 5. 21, only Wood industry shows a favourable situation which is characterised by an operating profit ratio of 15 per cent, which indicates the portion which is remaining out of every rupee worth of sales after all current operating costs and expenses have been met.

V. B. 13. 6 Creditors' Claim on Assets versus Owners' Claim :

This can be measured with the help of Debt-Equity (D-E) Ratio Table 5. 21 reveals that industries such as Hotels, Agro-based, Electrical, Wood, Building materials, Textiles and Papers have a comparatively better D-E ratio (0.67:1, 0.48:1, 0.44:1, 0.43:1, 0.41:1, 0.40:1 and 0.40:1 respectively). All other industries under study show a comparatively lower D-E. Generally, a D-E of 1:1 is said to be favourable. Hence, it can be concluded that the owners of the formerly stated industries record a higher claim over the assets than their creditors.

V. B. 13. 7 Overall Profitability :

This can be measured with the help of Return On Investment. ROI is the ratio of net profit to own funds. An ROI of above 35 per cent is considered attractive. As per Table 5. 21, all industries under study except Electronic Industry (ROI only 23 per cent) have a very attractive ROI. Among them, Textile Industry ranks first with an ROI of 83 per cent. It is followed by : (1) Studio Industry with 75 per cent, (2) Building Materials Industry and Paper Industry with 73 per cent, and (3) Electrical Industry with an ROI of 66 per cent. However, all other industries have a very comfortable ROI which varies from 41 per cent to 64 per cent. From this, it is understood that almost all industries financed by the KFC have achieved their major objective which happens to be the realisation of a satisfactory net income.

V. B. 13. 8 Strength or Weakness of Industry :

The strength or weakness of industry is measured with the help of Margin of Safety (M/S). As per Table 5.21, Rubber industry had an M/S of 84.7 per cent, which indicates that even if the present sales decreased by 84.7 per cent, the Rubber industry as a whole, was in the profit group. Further, the P/V Ratio of Rubber Industry (69%) indicates that the total combined fixed cost and profit was 69 per cent of sales. If the total cost of the industry was independent of the fixed cost relating to Rubber industry, it obviously hints that 69 per cent of the contribution amounted to 69 per cent of the profit. From this, it is concluded that the units of Rubber industry were the strongest among the

entire field of industry. However, Cost Accountants prefer to have an M/S of 25 per cent. Accordingly, all industries under study are strong in terms of profitability. Even the Leather industry, which had the least M/S amounting to 29.8 per cent, was sound.

PART C

V. C Loanees' Perception on the Assistance from the KFC for Entrepreneurial Growth

In early period of the 20th century, economic power was concentrated in some industrial magnets. Such concentration created economic and social imbalances in the country. Some areas were highly industrialised while others had only a few projects or were even neglected. After Independence, steps for decentralising economic and industrial activity were begun. Setting up of development financial institutions (DFIs) was a step in this direction. The Kerala Financial Corporation is such an institution. It started promotional activities in the beginning of 1953. Consequently, many industrial units were set up in the State. Here, an attempt is made to evaluate the performance of the 60 selected units and their perception on the functioning of the KFC.

V. C. 1 Information About the Service of the KFC

Responses to the question as to how the beneficiary units came to know that KFC could cater to their financial needs are shown in Table 5.22.

Table 5. 22**Source of Information about the Service of the KFC**

Source	Idukki	Malappuram	Thiruvananthapuram	Ernakulam	Total
KFC programmes	9(60)	8(53)	10(67)	5(33)	32(53)
Other sources	6(40)	7(47)	5(33)	10(67)	28(47)
Total	15(100)	15(100)	15(100)	15(100)	60(100)

Source : Primary data

Note : 1. Figures in brackets denote percentage to total in respective columns

2. Other sources include: press, DICs, electronic media, loan melas and friends and Relatives

Table 5.22 makes it clear that information through the official campaign programmes of the KFC had been very effective in taking the KFC closer to the prospective industrialists as these attracted 53 per cent of clientele, whereas other sources, were found to be not so effective in popularising the functioning of the Corporation. The role of the KFC, however, in this regard is very important.

V. C. 2 Details of Loans Obtained

The details of loan obtained from the KFC by the industrial units are exhibited in Table 5.23.

Table 5. 23
Details of Term Loans obtained from the KFC by the Units during 2002-'07
(Rs. in lakh)

Details	Mean (Rs.)	Standard Deviation	C.V. (%)
Amount applied for	26.14	31.02	118.65
Amount sanctioned	23.55	29.55	125.46
Amount disbursed	22.34	29.21	130.76
Amount utilised	94.02	13.84	14.72
Rate of interest (%)	11.94%	2.54	21.26
No. of instalments for repayment	61.24	33.34	54.45

Source : Primary data

As per Table 5.23, wide inconsistency does exist with regard to the amounts disbursed, sanctioned and applied for, as these represent a C.V. of 130.76 per cent, 125.46 per cent and 118.65 per cent respectively.

V. C. 3 Purpose of Loans

The Corporation gives financial assistance to all types of industries engaged in manufacturing or servicing activities when the project cost for such loans does not exceed Rs. 12 crore. For the service sector, the limit is Rs. 10 crore. The units (existing/new) should necessarily be in Kerala. The maximum term loan limit to the corporate sector is Rs. 500 lakh and to others it is Rs. 200 lakh. The KFC has classified the activities which qualify for

financial assistance into 30. Financial assistance for both fixed capital needs and working capital needs are provided by the Corporation. Permanent capital financing includes various purposes, viz., initial capital for starting the unit, diversification, modernisation, rehabilitation, expansion, etc. The purpose for which financial assistance is availed of by the entrepreneurs under study is analysed in Table 5. 24.

Table 5. 24
Purpose-wise Classification of Loans Sanctioned

Purpose	Idukki	Malappuram	Thiruvananthapuram	Ernakulam	Total
Starting the unit	15(100)	6 (40.0)	9 (60.0)	5 (33.3)	35 (58)
Diversification and modernisation	Nil	3 (20.0)	5 (33.3)	4 (26.7)	12 (20.0)
Rehabilitation	Nil	Nil	Nil	1 (6.7)	1 (1.7)
Modernisation	Nil	3 (20.0)	Nil	4 (26.7)	7 (11.6)
Starting, diversification and modernisation	Nil	Nil	1 (6.7)	Nil	1 (1.7)
Starting and diversification	Nil	1 (6.7)	Nil	Nil	1 (1.7)
Diversification and expansion	Nil	1 (6.7)	Nil	Nil	1 (1.7)
Other expenses	Nil	1 (6.7)	Nil	1 (1.7)	2 (3.3)
Total units	15(100)	15 (100)	15 (100)	15 (100)	60 (100)

Source : Primary data

Note : Figures in brackets denote percentage to total in respective columns

Here an attempt is made to study, in particular, the purpose for which loans are sanctioned by the KFC. Table 5.24 provides the details of utilisation

of loans. Accordingly, 58 per cent units utilised the finance for starting the unit. A significant difference is observed between the districts in this matter. In Idukki, all units utilised the assistance for starting units whereas in Malappuram district, 40 per cent units utilised it for this purpose, and 3.3 per cent of the units utilised the financial assistance obtained from the Corporation for working capital needs (other expenses). A significant difference exists in this case also. As much as 1.7 per cent of the units used the loan amount for rehabilitation expansion, diversification and modernisation purposes. However, from this it is inferred that that majority of the assistance given by the KFC is utilised for the purpose of establishing new industrial units.

V. C. 4 Cost of Borrowings from the KFC

A series of formalities have to be undergone by the loanees prior to getting loan from the KFC. Documentation charges, travel and food expenses and many other expenses are associated with them. In order to make a comparative analysis of the cost of borrowings, data from two commercial banks, viz., the State Bank of India and Canara Bank which are some other sources of finance of the units were considered. The relevant information is given in Table 5.25.

Table 5. 25

Average Amount Spent to Obtain a Loan of Rupees 10 Lakh

Expense	KFC	State Bank of India	Canara Bank
Documentation	2408.54	2726.84	2615.6
Travel and food	850	900	1000
Other expenses	2425.32	3211.79	3192.42

Source : Primary data

As per Table 5. 25, the average cost of borrowings for a loan of Rs. 10 lakh, (expenses of documentation, travel and food, and other expenses) was less in the case of loans from the KFC when compared to that of commercial banks.

V. C. 5 Types of Security Insisted by the KFC

While lending money, the Kerala Financial Corporation grants the loans in one way or the other. In some cases, the Corporation may grant loans on the personal security of the loanee or on the personal security coupled with the guarantee of another person. Because of the advantages associated with collateral security, often the Corporation insists on it. In some other cases, the Corporation requires both personal and collateral securities for granting the loan. The responses of the entrepreneurs under study in this regard are presented in Table 5. 26.

Table 5. 26
Types of Security Insisted for Loans

Security	Idukki	Malappuram	Thiruvanantha puram	Ernakulam	Total
Collateral	13(86.7)	15(100)	5(33.3)	11(73.3)	44(73.3)
Personal	Nil	Nil	4(26.7)	3(20.0)	7(11.7)
Personal and collateral	2(13.3)	Nil	6(40.0)	1(6.7)	9(15.0)
Total units	15(100)	15(100)	15(100)	15(100)	60(100)

Source : Primary data

Note : Figures in brackets denote percentage to total in respective columns

From Table 5. 26, it is clear that 73.3 per cent units arranged loans on collateral security, whereas 11.7 per cent arranged it on personal security and 15 per cent on both personal and collateral securities. From this, it is inferred that the KFC prefers collateral security to personal security for sanctioning loans.

V. C. 6 Authority for Valuation of Collateral Security

Often properties like land, building, plant, machinery, etc., are accepted as securities. The value of security offered by the borrower units has a significant role in determining the volume of loan granted by the Corporation. The securities, therefore, have to be correctly valued. Who makes the valuation of security is a matter of concern. Officials of the KFC themselves may often be the valuers. The Corporation has also the

precedence of getting it valued by approved technical experts. The responses of the entrepreneurs under study as to the authority for valuation of security are furnished in Table 5. 27.

Table 5. 27
Authority for Valuation of Collateral Security

Authority	Idukki	Malappuram	Thiruvanantha puram	Ernakulam	Total
Approved valuers	5(33.3)	1(6.7)	Nil	Nil	6(10.0)
KFC officials	10(66.7)	14(93.3)	15(100)	15(100)	54(90.0)
Total units	15(100)	15(100)	15(100)	15(100)	60(100)

Source : Primary data

Note : Figures in brackets denote percentage to total in respective columns

Table 5.27 shows that the collateral security accepted by the Corporation from 90.0 per cent units was valued by the KFC officials themselves, whereas only that of 10 per cent units was evaluated by approved valuers. From this, it is realised that the KFC maintains a machinery for valuation of securities.

V. C. 7 Correctness of Valuation of Collateral Security

As the value of collateral security and size of loan amount are directly related, the mode of valuation is of utmost concern. A tendency of valuing at a lower figure is being expressed by various banks and other financial institutions. How far accuracy and correctness are observed by the KFC in valuing the collateral security offered by borrowers assumes vital

significance. Information gathered in this regard from the entrepreneurs under study is displayed in Table 5. 28.

Table 5. 28
Correctness of Valuation of Collateral Security

Valuation	Idukki	Malappuram	Thiruvananthapuram	Ernakulam	Total
Undervaluation	14(93.3)	Nil	2(15.4)	15(100)	31(51.7)
Correct valuation	1(6.7)	15(100)	13(86.6)	Nil	29(48.3)
Total units	15(100)	15(100)	15(100)	15(100)	60(100)

Source : Primary data

Note : Figures in brackets denote percentage to total in respective columns

Table 5.28 depicts the opinions of the beneficiaries regarding the correctness of valuation of collateral security. The majority of the beneficiaries (51.7 per cent) opined that it was undervalued, while the rest (48.3 per cent) replied that it was valued correctly. However, a significant difference in opinion was seen among the four districts. All beneficiaries of Ernakulam district believed that the collateral security was undervalued by the KFC, whereas none from Malappuram district believed so.

V. C. 8 Extent of Undervaluation of Collateral Security

As per Table 5.28, the majority of the borrower units commented that their collateral security had been undervalued by the Corporation. Their perception on how far it was undervalued is presented in Table 5. 29.

Table 5. 29**Extent of Undervaluation of Collateral Securities**

Valuation reduced by	Idukki	Malappuram	Thiruvananthapuram	Ernakulam	Total
20%	Nil	Nil	Nil	2(13.3)	2(6.5)
30%	7(50.0)	Nil	1(50.0)	1(6.7)	9(29.0)
40%	7(50.0)	Nil	Nil	6(40)	13(41.9)
50%	Nil	Nil	1(50.0)	4(26.7)	5(16.1)
60%	Nil	Nil	Nil	2(13.3)	2(6.5)
Total units	14(100)	Nil	2(100)	15(100)	31(100)

Source : Primary data

Note : 1. Figures in brackets denote percentage to total in respective columns

2. 29 units (Idukki - 1, Malappuram - 15 and Thiruvananthapuram - 13) have no Complaint

The degree of undervaluation of collateral security of 31 units is depicted in Table 5. 29. It is clear from the Table that 41.9 per cent of the beneficiaries (i.e. 21.7 per cent of the total units) felt that their collateral security had been undervalued by 40 per cent of its real value and 29.0 per cent (i.e. 15.0 per cent of the total units) felt that their collateral security had been undervalued by 30 per cent of its value, while 6.5 per cent (i.e. 5 per cent of the total units) considered that it had been undervalued by 20 per cent, and another 6.5 per cent (i.e. 5 per cent of the total units) felt it had been undervalued by 60 per cent. Another set of beneficiaries constituting of 16.1 per cent (i.e. 8.3 per cent of the total units) believed that their collateral security had been undervalued by 50 per cent of its value. From this it is

understood that the majority of the borrowers were not satisfied with the valuation process of the KFC.

V. C. 9 Other Sources of Finance of the Borrower Units

The amount of loan disbursed by the KFC is not often sufficient to meet the needs of the entrepreneurs. It is due to many reasons, which include increase in the cost of production pursuant on the unjustifiable delay in getting the loan. Whatever be the reason for the shortage of finance, the borrowers have to meet the deficiency with money from some other sources. An investigation is made about such sources and the responses of the selected units are presented in Table 5. 30.

Table 5. 30
Other Sources of Finance of the Borrower Units

Source	Idukki	Malappuram	Thiruvanantha puram	Ernakulam	Total
Banks	10(67)	8(53)	7(47)	9(60)	34(57)
Others sources	5(33)	7(47)	8(53)	6(40)	26(43)
Total units	15(100)	15(100)	15(100)	15(100)	60(100)

Source : Primary data

Note : 1. Figures in brackets denote percentage to total in respective columns

2. Other sources include money lenders, friends, relatives etc.

From Table 5. 30, it is understood that 57 per cent of the borrower units approached banks for additional finance to make good the shortage, while 43 per cent arranged financial assistance to make good the shortage, from other sources. From this analysis, it is inferred that the main source of funds of the

industrial units is KFC finance and the shortage, if any, is arranged mainly by way of loans from banks.

V. C. 10 Various Difficulties Faced in Obtaining Loan from the KFC

The Kerala Financial Corporation is an autonomous body in the public sector. It has to comply with a series of formalities in connection with granting of loans. It creates monotony to the beneficiaries. Further, delay in sanctioning the loan and its cost create difficulty in obtaining it on time. 60 per cent of the units opined that there was some difficulty in getting loans from the KFC. The difficulties they faced in this connection are depicted in Table 5. 31.

Table 5. 31
Kinds of Difficulties Faced in Getting Loan from the KFC

Nature of difficulty	Idukki		Malappuram		Thiruvananthapuram		Ernakulam	
	Mean	Rank	Mean	Rank	Mean	Rank	Mean	Rank
Procedural difficulties	3.0	4	3.5	4	3.3	4	3.0	4
Lack of recommendation	4.0	3	4.00	3	3.4	3	2.9	5
Security problems	4.0	2	4.50	2	3.54	2	4.2	2
Delay in getting finance	4.01	1	4.60	1	4.83	1	4.6	1
High documentation cost	3.10	5	3.30	5	3.2	5	2.9	3

Source : Primary data

From Table 5.31, it is clear that delay in getting finance was the major difficulty faced by the industrial units of all sample districts as it ranked first in all cases. Likewise, security problems felt to be the second difficulty in all the four districts. Lack of recommendation was the third problem for three districts, viz., Idukki, Malappuram and Thiruvananthapuram, whereas this factor was not a serious problem for the units in Ernakulam district. High documentation cost was a trivial problem for the units of Idukki, Malappuram and Thiruvananthapuram districts, while it was a serious problem faced by the units of Ernakulam district where it assumed the 3rd rank.

V. C. 11 Details of Attempt Made to Get the Loan

As finance is the most important element, the borrowers insist on its easiest and earliest sanctioning and disbursement. Often, they follow certain methods of influence so that it is not disbursed late. The responses of the borrowers on the issue are presented in Table 5. 32.

Table 5. 32
Attempts Made to Get the Loan on Time from the KFC

Reminders	Idukki	Malappuram	Thiruvanantha puram	Ernakulam	Total
Used	5(33.3)	1(6.7)	4(26.7)	5(33.3)	15(25)
Not used	10(66.7)	14(93.3)	11(73.3)	10(66.3)	45(75)
Total units	15(100)	15(100)	15(100)	15(100)	60(100)

Source : Primary data

Note : Figures in brackets denote percentage to total in respective columns

Table 5. 32 indicates that 25 per cent of the beneficiary units had used some kinds of reminder attempts to get the loan sanctioned by the KFC, whereas the majority of the units (75 per cent) selected for investigation had not used any kind of influence for the same. From this, it is inferred that the KFC follows a rational and transparent lending policy which is accessible and affordable to the small and medium industries of the State of Kerala. However, a significant degree of difference was seen among the units of various districts with regard to the use and non-use of influence for this purpose.

V. C. 12 Time Lag between Application and Sanction of Loans

An important issue deserving attention in respect of financial assistance by the KFC is that of the time gap between the registration of application and the sanction of loan. This factor was analysed and the results are presented in Table 5. 33.

Table 5. 33

Time Lag between Application and Sanction of Loans

Reminders	Idukki	Malappuram	Thiruvanantha puram	Ernakulam	Total
Upto 2 months	6(40)	7(47)	6(40)	5(33)	24(40)
Above 2 months	9(60)	8(53)	9(60)	10(66)	36(60)
Total units	15(100)	15(100)	15(100)	15(100)	60(100)

Source : Primary data

Note : Figures in brackets denote percentage to total in respective columns

Table 5. 33 reveals that only 40 per cent of industrial units were fortunate to have been sanctioned the loan in less than sixty days after registration of their applications. As much as 60 per cent opined that it took them more than two months in getting the loan sanctioned. In fact, the majority of the units in any district were found to have waited at least 2 months. Among the districts, no significant difference was observed in Malappuram.

V. C. 13 Time Lag between Sanction and the Initial Disbursement of Loan

Whether it took time to disburse the loan already sanctioned is a matter of concern. Investigation was conducted on this aspect also. The responses of the units on the time taken to get the loans sanctioned are displayed in Table 5. 34.

Table 5. 34
Time Lag between Sanction and Disbursement of Loans by the KFC

Months	Idukki	Malappuram	Thiruvananthapuram	Ernakulam	Total
0 – 1	1(6.7)	2(13.3)	5(34)	2(13.3)	10(16.7)
1 – 2	6(40)	3(40)	1(6.7)	8(53.3)	21(35)
2 – 3	3(20)	1(6.7)	1(6.7)	2(13.3)	7(11.7)
3 – 4	2(13.3)	3(20)	2(13.3)	2(13.3)	9(15)
4 – 5	3(20)	2(13.3)	4(26.7)	Nil	7(15)
Above 5	Nil	1(6.7)	2(13.3)	1(6.7)	4(6.6)
Total units	15(100)	15(100)	15(100)	15(100)	60(100)

Source : Primary data

Note : Figures in brackets denote percentage to total in respective columns

Table 5.34 shows that 16.7 per cent of the units got the assistance disbursed within 30 days of sanctioning, while 35 per cent got it in a time range of 1 to 2 months; 15 per cent had to wait for disbursement of the sanctioned loan for a period ranging from 3 to 5 months. Certain units had to wait for over 5 months for the same. Among the districts, significant difference was noted only in Thiruvananthapuram and Ernakulam. In both these districts, some units had to wait for a considerably long period of time ranging from 5 to 30 months. Having sanctioned the loan, it becomes essential for KFC to disburse the same on time. If it fails to comply with this need, the image of the Corporation gets highly tarnished and this situation creates serious repercussions.

V. C. 14 Mode of Disbursement of Loan

The Corporation follows different ways for disbursing loans. They include disbursement of cash directly to the borrowers themselves, payment to the suppliers of various inputs of the borrowers, and partial payment to the borrowers and their creditors (suppliers of inputs). On queries regarding this, they responded as shown in Table 5. 35.

Table 5.35**Mode of Disbursement of Loans**

Mode	Idukki	Malappuram	Thiruvanantha puram	Ernakulam	Total
Direct payment	8(53.3)	6(40)	9(60)	10(66.6)	33(55)
Indirect payment	7(46.7)	9(60)	6(40)	5(33.3)	27(45)
Total units	15(100)	15(100)	15(100)	15(100)	60(100)

Source : Primary data

Note : 1. Figures in brackets denote percentage to total in respective columns

2. Direct payment means payment directly to the borrowing units.

3. Indirect payment means payment directly to the customers and suppliers of the borrowing units.

As per Table 5.35, 55 per cent of the borrower units stated that the loans sanctioned were disbursed directly to the borrowers themselves, while 45 per cent opined that it was paid to the suppliers of various inputs in respect of deferred payments of items, viz., plant and machineries, raw materials, etc. From this it is inferred that the KFC prefers disbursement of assistance directly to the borrowers.

V. C. 15 Adequacy of Working Capital Loan

Working capital financing is of vital importance for every industrial unit. Often, working capital is financed with the assistance obtained from DFIs. The Kerala Financial Corporation also gives working capital loans to the borrowers. Whether the loan amount is sufficient for the working capital need

is of serious concern. The responses of the borrower units in this respect are presented in Table 5. 36.

Table 5.36
Adequacy / Otherwise of Working Capital Loans Granted by the KFC

Situation	Idukki	Malappuram	Thiruvananthapuram	Ernakulam	Total
Adequate	7(46.7)	5(33.3)	2(13.3)	8(53.3)	22(36.7)
Not Adequate	8(53.3)	10(66.7)	13(86.7)	7(46.7)	38(63.3)
Total units	15(100)	15(100)	15(100)	15(100)	60(100)

Source : Primary data

Note : Figures in brackets denote percentage to total in respective columns

From Table 5. 36, it is evident that 63.3 per cent of the units did not obtain adequate working capital loan from the KFC to finance their working capital needs, whereas 36.7 per cent were satisfied with the adequacy of loans obtained for working capital financing. From this it is inferred that majority of the units arranged their additional working capital loan from sources other than the KFC.

V. C. 16 Utilisation of Working Capital Loan

The utilisation of working capital loan by the borrower units falls under three purposes, viz., purchase of raw materials, payment to creditors, and payment of other expenses like taxes, wages, salaries, electricity bills, etc. These are depicted in separate Tables, viz., 5.37, 5.38 and 5.39.

Table 5. 37**Utilisation of Working Capital Loan for Purchase of Raw Materials**

Whether utilised	Idukki	Malappuram	Thiruvananthapuram	Ernakulam	Total
Yes	15(100)	13(86.7)	14(93.3)	9(60.0)	51(85.0)
No	Nil	2(13.3)	1(6.7)	6(40.0)	9(15.0)
Total units	15(100)	15(100)	15(100)	15(100)	60(100)

Source : Primary data

Note : Figures in brackets denote percentage to total in respective columns

An analysis of Table 5. 37 shows that 85 per cent of the units utilised the working capital loan for the purchase of raw material, while, the rest (15.0 per cent) did not use it for this purpose. Among the districts, a similar pattern was seen in Idukki, Malappuram and Thiruvananthapuram with 100 per cent, 86.7 per cent and 93.3 per cent units respectively. But Ernakulam district showed a considerable difference, characterised with only 60.0 per cent of the total units using the working capital loan for the purpose of purchase of raw materials.

Table 5. 38**Utilisation of Working Capital Loan for Payment to Creditors**

Whether utilised	Idukki	Malappuram	Thiruvananthapuram	Ernakulam	Total
Yes	Nil	13(86.7)	8(53.3)	2(13.3)	23(38.3)
No	15(100)	2(13.3)	7(46.7)	13(86.7)	37(61.7)
Total units	15(100)	15(100)	15(100)	15(100)	60(100)

Source : Primary data

Note : Figures in brackets denote percentage to total in respective columns

From Table 5. 38, it is evident that 61.7 per cent of the units did not use the working capital for the purpose of paying off the creditors. Only 38.3 per cent units has used it for this purpose. But, when a disctrict-wise analysis was made, difference was seen with regard to both utilisation and non-utilisation of working capital loan for this purpose.

In addition to utilisation of working capital loan for purchase of raw materials and payment to creditors, it was also utilised for meeting various expenses like taxes, electricity charges, wages, rent, salary, etc., the details of which are listed in Table 5. 39.

Table 5. 39
Utilisation of Working Capital Loan for Meeting Other Expenses

Whether utilised	Idukki	Malappuram	Thiruvanantha puram	Ernakulam	Total
Yes	9(60.0)	13(86.7)	9(60.0)	10(66.7)	41(68.3)
No	6(40.0)	2(13.3)	6(40.0)	5(33.3)	19(31.7)
Total	15(100)	15(100)	15(100)	15(100)	60(100)

Source : Primary data

Note : Figures in brackets denote percentage to total in respective columns

Table 5. 39 indicates that 68.3 per cent of the units utilised the working capital loan for meeting expenses other than purchase of raw materials and payment to creditors, whereas only 31.7 per cent did not utilise it for any other purpose. Among the districts, considerable degree of difference was noticed in Malappuram and Ernakulam.

V. C. 17 Granting Additional Loan for Expansion or Diversification Needs

Often the loan granted for the first time for purposes like expansion, diversification, modernisation, etc. is not found sufficient for various reasons, viz., incorrect appraisal of the project, escalation of project costs, granting of lesser loans due to insufficiency (or incorrect valuation) of security, etc. Responses to question whether the seekers were given such additional loans are furnished in Table 5. 40.

Table 5. 40
Additional Loan for Expansion / Diversification

Additional Loan	Idukki	Malappuram	Thiruvanantha puram	Ernakulam	Total
Granted	3(20.0)	7(46.7)	11(73.3)	8(53.3)	29(48.3)
Not granted	12(80.0)	8(53.3)	4(26.7)	7(46.6)	31(51.7)
Total	15(100)	15(100)	15(100)	15(100)	60(100)

Source : Primary data

Note : Figures in brackets denote percentage to total in respective columns

Table 5. 40 displays that no additional loans were sanctioned to 51.7 per cent units for expansion or diversification purpose. Such additional loans were given to 48.3 per cent of the industrial units. From this, it is inferred that the KFC prefers new units to existing units for giving financial assistance.

V. C. 18 Premature Closing of Loan

Effective industrial units make premature repayment of loans. This practice helps them avoid the burden of interest. Further, they can enjoy the rebate facility for prompt repayment and reduction of interest rate for the timely clearance of interest arrears. Whether the entrepreneurs under study made any such premature repayment can be studied from Table 5. 41.

Table 5. 41
Premature Closing of Loan by Borrowers

Premature payment	Idukki	Malappuram	Thiruvananthapuram	Ernakulam	Total
Made	4(26.7)	2(13.3)	9(60.0)	11(73.3)	26(43.3)
Note made	11(73.3)	13(86.7)	6(40.0)	4(26.7)	34(56.7)
Total	15(100)	15(100)	15(100)	15(100)	60(100)

Source : Primary data

Note : Figures in brackets denote percentage to total in respective columns

As per Table 5. 41, 56.7 per cent of the total beneficiary units did not make any premature repayment of loan to the KFC, whereas the remaining 43.3 per cent made such premature repayments. Further, 73.3 per cent units of Ernakulam district replied in the positive, while 86.7 per cent of Malappuram district and 73.3 per cent of Idukki district replied in the negative. So, there exists a difference of opinion across the beneficiaries of different districts.

V. C. 19 Promptness in Repayment of Loan

Different opinions could be gathered on the question of promptness in repayment of loan by the borrower units. The responses are depicted in Table 5. 42.

Table 5. 42
Promptness in Repayment of Loan

Response	Idukki	Malappuram	Thiruvanantha puram	Ernakulam	Total
Prompt payment	11(73.3)	14(93.3)	3(20.0)	15(100)	43(71.67)
Not prompt payment	4(26.7)	1(6.7)	12(80.0)	Nil	17(28.33)
Total	15(100)	15(100)	15(100)	15(100)	60(100)

Source : Primary data

Note : Figures in brackets denote percentage to total in respective columns

From Table 5. 42, it is seen that, 71.67 per cent of the beneficiary units repaid the loans promptly , whereas 28.33 per cent did not. Further, 100 per cent of Ernakulam district, 93.3 per cent of Malappuram district, and 73.3 per cent of Idukki district replied in positive, while zero from Ernakulam district, only 6.7 per cent from Malappuram district and 26.7 per cent from Idukki district responded in negation to the question. Here, more or less the same number of beneficiary units from three districts did reply in the same way and hence there is no significant degree of difference of opinion across the beneficiaries. As far as Thiruvananthapuram is concerned, a considerable difference is seen as only 20 per cent replied in the positive.

V. C. 20 Incentive/Rebate Offered for Prompt Repayment of Loans

The Kerala Financial Corporation follows a practice of providing a rebate of 01% to the borrowers on all prompt repayments of loans. Such rebates are paid only if (1) there is not any arrear in the loan accounts as on the due date of interest, and (2) the interest is remitted within 8 days from the due date to get the rebate³. However, there was a rebate holiday for the period from 15-10-2003 to 01-09-2004. Details as to who amongst the entrepreneurs under study had enjoyed the benefit of rebate are presented in Table 5. 43.

Table 5. 43
Incentives for Prompt Repayment of Loans

Incentives	Idukki	Malappuram	Thiruvanantha puram	Ernakulam	Total
Obtained	11(100)	10(71.4)	3(100)	13(86.7)	37(86)
Not obtained	Nil	4(28.6)	Nil	2(13.3)	6(14)
Total	11(100)	14(100)	3(100)	15(100)	43(100)

Source : Primary data

Note : Figures in brackets denote percentage to total in respective columns

From Table 5. 43, it could be seen that only 37 units out of 43, which made prompt repayment enjoyed such incentives, whereas 6 units out of 43 did not enjoy the same for various reasons. From this, it is inferred that the KFC is very strict about its rebate norms.

V. C. 21 Reduction / Exemptions of Interest Rate on Repayment

The KFC offers the facility of reduction in interest rates for existing loans-bearing high rate of interest-subject to the condition that at least 50 per cent of the interest arrears should be cleared. Further, loanees who are continuously in *the standard category* for a minimum period of 03 years can avail themselves of reduction in the rate of interest that is applicable for fresh loans, provided they obtain the minimum credit rating stipulated ⁴. Regarding enquiry as to the receipt of this benefit, the selected entrepreneurs responded in the way shown in Table 5. 44.

Table 5. 44
Recipients of Subsidies / Exemptions on / from Repayment

Subsidies / Exemptions	Idukki	Malappuram	Thiruvananthapuram	Ernakulam	Total
Not enjoyed	3(20.0)	1(6.7)	7(46.7)	2(13.3)	13(21.7)
Enjoyed	12(80.0)	14(93.3)	8(53.3)	13(86.7)	47(78.3)
Total	15(100)	15(100)	15(100)	15(100)	60(100)

Source : Primary data

Note : Figures in brackets denote percentage to total in respective columns

Table 5. 44 shows that 78.3 per cent of the beneficiary units enjoyed some subsidies or exemptions from repayment for prompt repayment of the amount of loans sanctioned by the KFC, whereas the rest (which comes to 21.7 per cent) did not enjoy any kind of such benefits. From this it is inferred that the majority of the loanees complied with the condition that at least 50 per

cent of interest arrears should be cleared, and they were continuously in *the standard category* for a minimum period of 3 years.

V. C. 22 Methods Adopted for Follow-up and Recovery of Loans

The KFC follows a series of methods in this regard. Which of them is/are used in the case of the sample units under study is presented in Table 5. 45.

Table 5. 45
Methods Adopted for Follow-up and Recovery of Loans

Method	Idukki	Malappuram	Thiruvanantha puram	Ernakulam	Total
Periodical visits	3(20)	7(46.7)	2(13.3)	3(20)	15(20)
Reduction in interest rates	8(53.3)	4(26.7)	3(20)	5(33.3)	20(33.3)
Guidance	2(13.3)	3(20)	1(6.7)	3(20)	9(15)
Other methods	2(13.3)	1(6.7)	9(60)	4(26.7)	16(26.7)
Total	15(100)	15(100)	15(100)	15(100)	60(100)

Source : Primary data

Note : Figures in brackets denote percentage to total in respective columns


Table 5. 45 displays that reduction of interest rate is very much used as a method for comfortable loan recovery as 33.3 per cent units were subject to this benefit. Guidance is the least followed method.

V. C. 23 Requests for Rescheduling of Loan Repayment and the Response of the KFC

On account of various problems, the borrower units are often not in a position to repay the loans as per schedule. This tends them to approach the Corporation with the request for rescheduling the repayment. Generally, the KFC entertains only the request of prosperous loanees for rescheduling the loan repayment. Repayment of earlier loans, position of arrears of interest, reason for requesting the repayment, etc., are some of the criteria adopted for this. The response of the KFC to similar requests of the entrepreneurs under study is analysed in Table 5. 46.

Table 5. 46

KFC's Response on Requests for Rescheduling the Repayment of Loan

Request	Response	Iddukki	Malappuram	Thiruvanantha puram	Ernakulam	Total
Made	Favourable	1	6	3	1	11
	Unfavourable	2	1	2	1	6
	Total	3 (20)	7 (46.7)	5 (33.3)	2 (13.3)	17 28.3)
Not made		12 (80)	8 (53.3)	10 (66.7)	13 (86.7)	43 (71.7)
Grand Total		15 (100)	15 (100)	15 (100)	15 (100)	60 (100)

Source : Primary data

Note : Figures in brackets denote percentage to total in respective column

From Table 5. 46, it is clear that out of the 17 units that made request for rescheduling the repayment of loan, only that of 11 units were considered favourably, and that of the rest 6 units unfavourably. From this, it

is inferred that the KFC was not satisfied with the performance of some units applied for rescheduling for various reasons.

V. C. 24 Opinion of Borrowers about the Service of the KFC

As the KFC is the major institution of its kind in the State of Kerala, it has to perform in such a way that the beneficiary units are capable of coping with its operations. The comment of the borrowers has to be seriously taken into account. Their responses about the service of the KFC are presented by a four-point scale in Table 5. 47.

Table 5. 47

Opinion of Borrowers about the Service of the KFC

Comment	Idukki	Malappuram	Thiruvantha puram	Ernakulam	Total
Very good	11 (73.3)	3 (20.0)	4 (26.7)	8 (53.3)	26 (43.3)
Good	3 (20.0)	5 (33.3)	5 (33.3)	4 (26.7)	17 (28.4)
Satisfactory	Nil	4 (26.7)	6 (40.0)	1 (6.7)	11 (18.3)
Below satisfactory	1 (6.7)	3 (20.0)	Nil	2 (13.3)	6 (10.0)
Total	15 (100)	15 (100)	15 (100)	15 (100)	60 (100)

Source : Primary data

Note : Figures in brackets denote percentage to total in respective columns

Table 5. 47 makes a four-point scaling of the responses of the borrowers about the service of the KFC. Accordingly, 43.3 per cent units opined the service to be 'very good', followed by the rating expression of 'good' by 28.4 per cent units. 18.3 per cent units said that it was 'satisfactory' while the rest

10.0 per cent had a 'below satisfactory' opinion. As the majority commented it to be 'very good', it could be realised that the KFC's service was good.

V. C. 25 Suggestions of Borrower Units to Improve the Functioning of the KFC

The KFC is a public sector undertaking. Its functioning has many drawbacks. However, as its organisation and management is purely a democratic set-up, the borrowers can put forth various suggestions born from their own experience which are helpful for the improvement of its functioning. Regarding this aspect, the borrower units responded as shown in Table 5. 48.

Table 5. 48
Suggestions of Borrower Units to Improve the Functioning of the KFC

Suggestions	Idukki		Malappuram		Thiruvananthapuram		Ernakulam	
	Mean	Rank	Mean	Rank	Mean	Rank	Mean	Rank
Frequent contact and feedback	Nil	Nil	4.18	2	3.54	1	2.00	4
Reduction of interest rate	5.00	1	4.86	1	3.57	2	5.00	1
Reduction of interest rate	5.00	1	4.86	1	3.57	2	5.00	1
Simplify the procedural aspects	4.00	2	3.17	4	2.91	3	4.60	2
Strengthen single window scheme	4.00	2	3.50	2.82	3	4	4.50	3
More transparent repayment schedule	Nil	Nil	3.00	5	2.33	5	Nil	Nil

Source : Primary data

As per Table 5. 48, the borrowers' suggestion for the 'Reduction of interest rate' ranked first in three districts, viz., Idukki, Malappuram and Ernakulam, as this comment had the highest mean values of 5.00 for Idukki and Ernakulam, and 4.86 for Malappuram. This suggestion was ranked second in Thiruvananthapuram district. Whereas frequent contact and feedback ranked first in Thiruvananthapuram district with a mean value of 3.54, it assumed the second rank in Malappuram district. Suggestion for more transparent schedule of repayment of loans assumed the fifth rank in Malappuram and Thiruvananthapuram districts, while the loanees of the two other districts did not comment on this.

PART D

V. D Testing of Hypotheses

As much as six main hypotheses (five null hypotheses and one alternate hypothesis) consisting of a total of sixteen sub-hypotheses have been formulated and tested.

There is no significant relationship between the region of industrial units and the source of information about the service of the KFC, time lag in sanctioning and disbursing the loans, methods of loan disbursement and the assistance sought by the units from other sources.

From this null hypothesis, five sub-hypotheses are formed and tested.

H I. 1 There is no significant association between the regions of industrial units and source of their information about the service of KFC.

Table 5. 49
Source of Information about the Service of the KFC

Source	Idukki	Malappuram	Thiruvananthapuram	Ernakulam	Total
KFC programmes	9 (60)	8 (53)	10 (67)	5 (33)	32 (53)
Other sources	6 (40)	7 (47)	5 (33)	10 (67)	28 (47)
Total	15 (100)	15 (100)	15 (100)	15 (100)	60 (100)
χ^2 3.75, 3 = 11.345					

Source : Primary data

Note : 1. Figures in brackets denote percentage to total in respective columns

2. Other sources include: press, DICs, electronic media, loan melas and friends and relatives

3. Read with Table 5. 22

When this hypothesis is tested with Chi-square, it is found that there is no relationship between the source of information about the service of the KFC and the location where the industrial units are situated, as the value of Chi-square (χ^2) is statistically not significant at 1 per cent level of significance (value of the Chi-square 3.75). This null hypothesis may, therefore, be accepted and may be concluded that there is no association between location and the source of information about the service of the KFC. In other words, the beneficiaries of each district have more or less the same

source of information, as the source of information and the region are not associated.

H I. 2 *There exists no dependence between the time lag in sanctioning the loans applied for and the locality of the industria units.*

Table 5. 50

Time Lag between Application and Sanction of Loans

Months	Idukki	Malappuram	Thiruvananthapuram	Ernakulam	Total
Upto 2 months	6 (40)	7 (47)	6 (40)	5 (33)	24 (40)
Above 2 months	9 (60)	8 (53)	9 (60)	10 (66)	36 (60)
Total	15 (100)	15 (100)	15 (100)	15 (100)	60 (100)
$\chi^2 \quad 0.554, 3 = 7.815$					

Source : Primary data

Note : 1. Figures in brackets denote percentage to total in respective columns

2. Read with Table 5. 33

When this hypothesis is tested with Chi-square, it is found that there is no relationship between the time lag in sanctioning the loans applied for and the locality of the industrial units, as the value of Chi-square (χ^2) is not significant at 5 per cent level of significance (value of the Chi-square 0.554). So, this null hypothesis may be accepted and it may be concluded that there exists no relationship between the time lag in sanctioning the loans applied for and the districts where the units are located.

H1.3 There is no significant dependence between the time lag in disbursing the loan sanctioned and the location where the industrial units are situated.

Table 5. 51

Time Lag between Sanctioning and Disbursement of Loan by the KFC

Period	Idukki	Malappuram	Thiruvananthapuram	Ernakulam	Total
Upto 2 months	7 (46.7)	8 (53.3)	6 (40)	10 (66)	31 (51.7)
Above 2 months	8 (53.3)	7 (46.7)	9 (60)	5 (34)	29 (48.3)
Total	15 (100)	15 (100)	15 (100)	15 (100)	60 (100)
χ^2 2.140, 3 = 7.815					

Source : Primary data

Note : 1. Figures in brackets denote percentage to total in respective columns

2. Read with Table 5. 34

When this hypothesis is tested with the Chi-square, it is found that there is no significant association between the time lag in disbursing the loans sanctioned and the districts where the industrial units are situated, as the value of Chi-square (χ^2) is not significant at 5 per cent level of significance (value of the Chi-Square 2.410). Therefore, this null hypothesis may be accepted with the conclusion that there exists no significant dependence between the time lag in disbursing the loans and the location of the units.

H1.4 There exists no significant association between the methods of loan disbursement and the location of industrial units.

Table 5. 52
Mode of Disbursement of Loans

Mode	Idukki	Malappuram	Thiruvananthapuram	Ernakulam	Total
Direct payment	8 (53.3)	6 (40)	9 (60)	10 (66.6)	33 (55)
Indirect payment	7 (46.7)	9 (60)	6 (40)	5 (33.3)	27 (45)
Total units	15 (100)	15 (100)	15 (100)	15 (100)	60 (100)
χ^2 2.409, 3 = 7.815					

Source : Primary data

Note : 1. Figures in brackets denote percentage to total in respective columns

2. Direct payment means payment directly to the borrowing units.

3. Indirect payment means payment directly to the customers and suppliers of the borrowing Units

4. Read with Table 5. 35

When this hypothesis is tested with the Chi-square, it is seen that there is no significant difference across the methods of disbursement of loans to the industrial units in the four sample districts, as the value of Chi-square (χ^2) is not significant at 5 per cent level of significance (value of the Chi-square 2.409). Hence this null hypothesis may be accepted and it may be concluded that KFC follows a uniform method of disbursement of loans to the units regardless of the districts where they are situated.

H1.5 There is no significant relation between the financial assistance from sources other than the KFC and the location where the industrial units are situated.

**Table 5. 53
Other Sources of Finance of the Borrower Units**

Source	Idukki	Malappuram	Thiruvananthapuram	Ernakulam	Total
Banks	10 (67)	8 (53)	7 (47)	9 (60)	34 (57)
Other Source	5 (33)	7 (47)	8 (53)	6 (40)	26 (43)
Total units	15 (100)	15 (100)	15 (100)	15 (100)	60 (100)
χ^2 1.664, 3 = 7.815					

Source : Primary data

Note : 1. Figures in brackets denote percentage to total in respective columns

2. Other sources include money lenders, friends, relatives etc.

3. Read with Table 5. 30

When this hypothesis is tested with the Chi-square, it is found that there is no association between the assistance from sources other than KFC and the location where the industrial units are situated, as the value of Chi-square (χ^2) is statistically not significant at 5 per cent level of significance (value of the Chi-square 1.6640). This null hypothesis, therefore, may be accepted and it may be concluded that there is no relationship between the assistance from sources other than the KFC and the location of the industrial units.

There is no dependence across the form of business organisation, the purpose of loan availed of and the difficulties associated with starting / running the industrial unit.

From this null hypothesis, the following two sub-hypotheses are formed and tested.

H 2.1 The purpose of loan sanctioned is independent of the form of the industrial unit.

Table 5. 54

Relationship between Purpose of Loan and Forms of Organisation

Form of organisation Purpose	Sole Proprietorship	Partnership	Company	Total
	1	2	3	
Starting the unit	13 (48)	10 (67)	12 (66)	35 (58)
Other purpose	14 (52)	5 (33)	6 (34)	24 (42)
Total	27 (100)	15 (100)	18 (100)	60 (100)
χ^2 1.8920, 3 = 7.815				

Source : Primary data

Note : 1. Figures in brackets denote percentage to total in respective columns

2. Other purpose include diversification, modernisation, expansion and rehabilitation of the unit

3. Read with Table 5. 12 and Table 5. 24

This hypothesis being tested with the Chi-square, it is found that there is no relationship between the purpose for which the loan is availed of

and the form of organisation of the beneficiary industrial units, as the value of Chi-square (χ^2) is not statistically significant at 5 per cent level of significance (value of the Chi-square 1.8920). This null hypothesis may, therefore, be accepted and it may be concluded that there is no association between the purpose of loan and form of organisation of the assisted units.

H 2. 2 There is no dependence between the difficulties faced in obtaining loan from the KFC and the form of organisation of the beneficiary units.

Table 5. 55
Difficulty/Otherwise in Getting the Loan

Difficulty/ otherwise	Form of organisation			Total
	1	2	3	
	Sole Proprietorship	Partnership	Company	
There is difficulty	18 (66.7)	8 (53.3)	10 (56)	36 (60)
There is no difficulty	9 (33.3)	7 (46.7)	8 (44)	24 (40)
Total	27 (100)	15 (100)	18 (100)	60 (100)
χ^2 1.1250, 3 = 7.815				

Source : Primary data

Note : 1. Figures in brackets denote percentage to total in respective columns

2. Read with para V. C. 10 and Table 5. 31

A test of this hypothesis with the Chi square reveals that there is no significant relationship between the difficulty associated with starting or

running the industrial unit and the form of organisation, as the value of Chi-square (χ^2) is statistically not significant at 5 per cent level of significance (value of the Chi-square 1.1250). So, this null hypothesis may be accepted and it may be concluded that the difficulties/otherwise faced by the units are independent of the form of the business organisation.

There is no significant difference across the size of beneficiary units and type of security offered by loanees and the methods adopted for follow-up and recovery of loans by the KFC.

From this null hypothesis, the following two sub-hypotheses are formed and tested.

H 3.1 There is no significant relationship between the type of security and the size of the industrial units.

Table 5. 56
Relationship between Type of Security Offered and Size of Units

Type of Security	Size of industrial unit			Total
	Tiny	Medium sized	SSI	
Collateral	10 (100)	32 (78.0)	2 (22.2)	44 (73.3)
Personal	Nil	6 (14.6)	1 (11.1)	7 (11.7)
Personal and collateral	Nil	3 (7.3)	6 (66.7)	9 (15.0)
Total	10 (100)	41 (100)	9 (100)	60 (100)
χ^2 24.909, 4 = 13.277				

Source : Primary data

Note : 1. Figures in brackets denote percentage to total in respective columns

2. In inspite of the presence of some cell having nil value or value less than five, the Chi-square test is applied as the degree of freedom is more than 3

3. Read with Table 5. 11 and Table 5. 26

The Chi-square test of this hypothesis reveals that there is close relationship between the type of security offered by the industrial units and size of the units as the value of Chi-square (χ^2) is statistically significant at 1 per cent level of significance (value of the Chi-square 24.909). This null hypothesis, therefore, can be rejected and it can be concluded that there is close relationship between the type of security offered by the industrial units and the size of the industrial units.

H 3.2 There is no dependence between the methods adopted by the KFC for follow-up and recovery of loans and size of the industrial units.

Table 5. 57

Relationship between the Methods Adopted by the KFC for Follow-up and Recovery of Loans and Size of the Industrial Unit

Methods of recovery and follow-up	Size of unit			Total
	Tiny	Medium sized	SSI	
Periodical visits	5 (50.0)	10 (24.4)	Nil	15 (20.0)
Reduction in interest rates	4 (40.0)	15 (36.6)	1 (11.1)	20 (33.3)
Guidance	1 (10.0)	6 (14.6)	2 (22.2)	9 (15.0)
Other methods	Nil	10 (24.4)	6 (66.7)	16 (26.7)
Total	10 (100)	41 (100)	9 (100)	60 (100)
χ^2 14.982, 6 = 12.592				

Source : Primary data

Note : 1. Figures in brackets denote percentage to total in respective columns

2. In inspite of the presence of some cells having nil value or value less than five, the Chi-square test is applied as the degree of freedom is more than 3

3. Read with Tables 5. 11 and 5. 45

This hypothesis, tested with the Chi-square, reveals significant relationship between the methods adopted by the KFC for follow-up and recovery of loan from the loanees and the size of unit, as the value of Chi-square (χ^2) is statistically not significant at 5 per cent level of significance (value of the Chi-square 14.982). This hypothesis, therefore, may be rejected with the conclusion that these two variables, viz., methods of follow-up and recovery and size of unit are closely related.

There is no variation across the regions and the amount of loan sanctioned to the units and the amount utilised by the units.

From this null hypothesis, the following two sub-hypotheses are formed and tested.

H 4.1 There is no variation in the amount of loan sanctioned to the units of various districts.

Table 5. 58
Sanction of Loans (Rupees in lakh)

District	N	\bar{x}	σ
Idukki	15	90.00	9.167
Malappuram	15	89.47	14.15
Thiruvananthapuram	15	79.54	16.45
Ernakulam	15	98.41	6.15
Total	60	89.51	13.65

Source : Primary data

Table 5. 59
ANOVA (One way)

Source of variation	Sum of square	Df	Mean square	F	Sig
Between Groups	2695.73	3	898.58	6.064	.001
Within Groups	8298.67	56	148.19		
Total	10994.39	59			

Source : Primary data

When this hypothesis is tested with one way ANOVA, it is found that the value of F is statistically significant at 5 per cent level of significance (value of F 6.064 with $P = .001$). Therefore, the null hypothesis may be rejected. It is also observed that the mean score of the response of the selected beneficiaries of Thiruvananthapuram district is much lower than that of the other three districts. So, it is concluded that the KFC does not follow a uniform practice for sanctioning the amount of loan to the units across the districts.

H 4.2 There is no significant variation in the amount utilised by the industrial units of different districts.

Table 5. 60
Utilisation of Loans Sanctioned (Rupees in lakh)

District	N	\bar{x}	σ
Idukki	15	92.00	15.97
Malappuram	15	99.80	00.77
Thiruvananthapuram	15	87.78	19.74
Ernakulam	15	96.50	08.57
Total	60	94.02	13.84

Source : Primary data

Table 5. 61
ANOVA (One way)

Source f variation	Sum of square	Df	Mean square	F	Sig
Between Groups	1237.89	3	412.629	2.297	.088
Within Groups	10060.66	56	179.655		
Total	11298.55	59			

Source : Primary data

When this hypothesis is tested with one way ANOVA, it is found that the value of F is statistically significant at 10 per cent level of significance (value of F 2.297 with P = 0.088). Hence, the null hypothesis may be rejected. It is also observed that the loans sanctioned by the KFC were almost fully utilised by the units in Malappuram district as the mean value of the district is very high when compared to the values of other three districts.

There is no variation in the opinions of the beneficiaries about the service rendered by KFC, from the units of different districts, different form of organisation and different size.

From this null hypothesis, the following three sub-hypotheses are formed and tested.

H 5.1 There is no variation in the opinions of the beneficiaries of different districts about the service rendered to them by the Corporation.

Table 5. 62**Opinions of the Beneficiaries of KFC about Its Service**

Location	Mean (\bar{x})	Number (N)	Standard Deviation (σ)
Idukki	3.6000	15	0.0601
Malappuram	2.5333	15	1.0601
Thiruvananthapuram	2.8667	15	0.8338
Ernakulam	3.2000	15	1.0823
Total	3.0500	60	1.0156

*Source : Primary data***Table 5. 63****ANOVA (One way)**

Source of variation	Sum of square	Df	Mean square	F	Sig
Between Groups	9.383	3	3.128	3.403	0.024
Within Groups	51.467	56	0.919		
Total	60.850	59			

Source : Primary data

When this hypothesis is tested with one way ANOVA, it is found that the value of F is statistically significant at 5 per cent level of significance (value of F 3.403 with P = .024). So, this hypothesis may be rejected and it is also observed that the mean score of the regions of the selected units in Malappuram district is very low, when compared to the mean score of the other three regions. It is, therefore, concluded that the beneficiaries of

Malappuram district have extreme dissatisfaction with the service of the KFC when compared to the satisfaction level of the beneficiaries of the other three regions.

H 5. 2 There is no significant variation in the opinions of the beneficiary units of different forms of organisation about the service of KFC.

Table 5. 64

Opinions of the Beneficiary Units about the Service of the KFC

Form of organisation	Mean (\bar{x})	Number (N)	Standard Deviation (σ)
Sole proprietorship	3.4324	37	0.7280
Partnership	2.5714	21	1.0757
Company	1.0000	2	0.0000
Total	3.0500	60	1.0156

Source : Primary data

Table 5. 65

ANOVA (One way)

Source of variation	Sum of square	Df	Mean square	F	Sig
Between Groups	18.626	2	9.313	12.512	.000
Within Groups	42.224	57	0.741		
Total	60.850	59			

Source : Primary data

When this hypothesis is tested with one way ANOVA, it is found that the value of F is statistically significant at 1 per cent level of significance (value of F 12.512 with P = .000). So, this hypothesis may be rejected. It is also observed that mean score of the response of the company form of organisation is the least when compared to with the two other forms, viz., sole proprietorship and partnership. Therefore, it is inferred that the company form of organisation is fully dissatisfied with the service provided by the KFC.

H 5.3 There is no significant difference between the opinions of beneficiary industrial units of different size about the service of the KFC provided to them.

Table 5. 66
Opinions of the Beneficiary Units about the Service of the KFC

Size	Mean (\bar{x})	Number (N)	Standard Deviation (σ)
Tiny	4.0000	10	0.0000
Medium sized	3.0976	41	0.8890
SSI	1.7778	9	0.8333
Total	3.0500	60	1.0156

Source : Primary data

Table 5. 67
ANOVA (One way)

Source of variation	Sum of square	Df	Mean square	F	Sig
Between Groups	23.685	2	11.842	18.162	.000
Within Groups	37.165	57	0.652		
Total	60.850	59			

Source : Primary data

This hypothesis is tested with one way ANOVA, and it is found that the value of F is statistically significant at 1 per cent level of significance (value of F 18.162 with P = .000). The mean score of the opinion of the SSI units about the service of the KFC is very low when compared to the two other sizes. So, this hypothesis is rejected with the observation that the SSI units are not satisfied with the service of the KFC.

There is significant difference in sanctioning loans by the KFC to male and female entrepreneurs.

Two sub-hypotheses are formed and tested on the basis of this alternate hypothesis.

H 6.1 There is discrimination on the part of KFC in sanctioning loans to male and female entrepreneurs.

This hypothesis is tested with 't' test.

Table 5. 68
Gender-wise Classification of Loans Sanctioned

Gender	(N)	\bar{x}	(σ)	T	Df	Sing (2 tailed)
Male	56	89.73	13.83	.475	58	.637
Female	4	86.36	11.94	.475		

Source : Primary data

From Table 5. 70, it is found that the value of 't' is not significant at 5 per cent level of significance (value of $t = .475$ with $p = .637$). Hence, this hypothesis can be rejected with the inference that the KFC does not make any discrimination in sanctioning loans to male and female entrepreneurs.

H 6. 2 There is significant difference between the utilisation of loans sanctioned and the gender of the entrepreneurs.

This hypothesis is tested with 't' test.

Table 5. 69
Gender-wise Classification of Utilisation of Loans

Gender	(N)	\bar{x}	(σ)	t	Df	Sing (2 tailed)
Male	56	94.13	14.05	.217	58	.829
Female	4	92.56	11.92			

Source : Primary data

The value of 't' is not significant at 5 per cent level of significance (value of $t = 0.217$ with $p = .829$). This hypothesis, therefore, may be rejected

and it may be concluded that the male and female entrepreneurs utilise the loans obtained in almost the same way.

Conclusion

In this chapter, an analysis of the pattern, organization and working of beneficiary units is made. The demographic profile of the entrepreneurs, profile of beneficiary units and various aspects about the working of the units are investigated. The study shows that a large proportion of male entrepreneurs entered the field of industry during the period under study. Further, most of the entrepreneurs in this period were of the college level and school level education group. Only 18.3 per cent of them had professional degrees and 15 per cent had vocational degrees. No entrepreneur under study was illiterate. The study further reveals that the majority of the entrepreneurs chosen for the study did not have any income from abroad. Only 5 per cent had such income. Occupationally, 40 per cent belongs to the manufacturing sector and 21.7 per cent did not have any such background. The entrepreneurs promoted a wide range of product manufacturing units covering electrical, electronic, food items, chemicals, wood, metallic engineering and some other industries.

The majority of the entrepreneurs were motivated by their friends and relatives to select a particular industry. 56.7 per cent of them stated that they were confronted with some difficulties in starting the unit while the rest did not make such a statement. Most of the entrepreneurs went for SSIs (MSMEs) (85%), while only a few entrepreneurs opted for non-SSIs. A large number

of entrepreneurs were sole traders, while only a nominal number belonged to the company form of organisation. 93.3 per cent of the entrepreneurs had their own business premises, while 6.7 per cent ran the business on rented premises. As for the number of workers employed in the industrial units, male workers had a significant majority in all the years under study, which varied from 73.6 per cent to 78.1 per cent. Regarding the mandays generated by the units, it ranged from 293.46 to 316.02 additional mandays. With respect to mobilisation of both working capital and fixed capital, the industrial units did approach the KFC instead of approaching any other agency. As far as various performance indicators are concerned, almost all industries had a favourable Current Ratio, Gross Profit Ratio, Net Profit Ratio, Debt-Equity Ratio, ROI and Margin of Safety.

The KFC's role in entrepreneurial growth is also analysed in this chapter. As per the analysis the beneficiary units came to know about the service of the KFC from different sources like friends and relatives, the KFC campaign programmes, etc. The loans were used for different purposes like starting the unit, diversification, modernisation, rehabilitation, etc. Costs such as documentation, travel and food, etc., were associated with the effort to obtain loans from the KFC. The loans had to be secured with personal and / or collateral securities which were valued either by the KFC officials or by approved valuers. Generally, the units faced various difficulties like formalities, time lag, high cost, etc., in connection with the KFC's granting of assistance. The units got financial assistance from the KFC either directly or

indirectly. The majority of the units opined that the KFC's assistance was not adequate to meet their needs. Regarding additional loans, the KFC was found to prefer the requests of new units. Most of the loanees did not have the practice of making premature closing of the loans. Those who made premature or prompt repayment were offered various incentives or rebates or exemption/reduction of interest. The KFC rarely considered the request for the rescheduling of loan repayment. It had the precedence of hypothecating various assets of its loanees. In order to have a comfortable recovery of loans, the KFC followed various methods including periodical visits, guidance, etc. Regarding the opinions of the beneficiary units about the service of the KFC, 43 per cent reported it to be very good and 10 per cent found it to be below satisfactory level. The borrower units put forth some suggestions to improve the functioning of the KFC. They included frequent contact and feedback, reduction of interest rate, simplifying the procedures, strengthening single window schemes, etc.

To conclude, despite many drawbacks, assistance from the KFC is the prime motivating factor for most of the entrepreneurs. Notwithstanding the existence of such motivators, both the Corporation and its beneficiary units had to reconcile with what the KFC offered and what the units needed. The last chapter of the study is devoted to find out the realities and to make some suggestions for the improved performance of both the Corporation and its beneficiary units.

References:

1. *Economic Review*, State Planning Board, Government of Kerala, p. 451, 2006.
2. *Ibid.*, p. 483.
3. *Annual Report of KFC*, p. 30, 2006.
4. *Ibid.*

CHAPTER VI

SUMMARY OF FINDINGS, RECOMMENDATIONS AND CONCLUSION

VI. 1 SUMMARY OF FINDINGS

VI. 2 RECOMMENDATIONS

VI. 3 CONCLUSION

CHAPTER VI

SUMMARY OF FINDINGS, RECOMMENDATIONS AND CONCLUSION

In the preceding chapters, an attempt has been made to examine the role of specialised financial institutions with special reference to the KFC in generating and developing industries in the State of Kerala. The study covers a period of five years ranging from 2002-'03 to 2006-'07. However, data pertaining to some previous years and those of 2008 and 2009 are also taken into consideration.

VI. 1 Summary of Findings

VI. 1. 1 Industrial Sector in Kerala

Industries in Kerala - Present Scenario

- ❖ Both traditional and non-traditional industries prevail in Kerala.
- ❖ The State is still characterised by industrial shyness owing to many factors like political instability, shortage of finance, lack of technical know-how, risk-averse mindset of the people, etc.
- ❖ As on 31-03-2008, the State had about 1,95,960 MSMEs, 806 medium and large-sized industries, prominent among them belong to the public sector.

- ❖ Recently, the State could attract potential and new ventures in IT, Bio-chemicals, etc.

Spatial Dimension of Industries

- ❖ There is wide inter-regional disparity in the industrial development of Kerala.
- ❖ Districts like Idukki, Wayanad and Pathanamthitta continue to be backward with a low contribution of 4.28% of GSDP from the manufacturing sector.

SSIs (MSMEs) in Kerala

- ❖ A consistent rise in the total number of MSMEs is registered in Kerala.
- ❖ By 2008 Kerala had 1,95,960 MSMEs .
- ❖ More than one-third of the total SSIs are situated in three districts, viz., Ernakulam, Trissur and Thiruvananthapuram. Wayanad and Idukki districts account for the lowest number of MSMEs (1.47 % and 2.58% respectively).
- ❖ The MSMEs in Kerala are relatively smaller in size and at least one-third of the total number of MSMEs are either non-existent or sick.

Medium and Large-scale Industries

- ❖ As much as 59.70 per cent of the total medium and large-scale industries of the State are concentrated in three districts, namely, Thiruvananthapuram, Ernakulam and Palakkad. Ernakulam alone has 35.08 per cent units of this category.

Sick/Incipiently Sick Units in Kerala

- ❖ Kerala accounts for 32.45 per cent of the total sick/incipiently sick units in the country.
- ❖ The State also accounts for 8.43 per cent of short-lived MSMEs in the country. Out of the total of 1,95,960 units registered so far in the State of Kerala, the number of units identified as sick on March 2008 is only 7,737.
- ❖ Among the sick units, 2,399 were registered for revival and 1,287 units were revived.

Indices of Industrial Production

- ❖ Industrial production in Kerala was concentrated on a few commodities.
- ❖ The State experienced a marginal improvement from 262.59 in 2003-'04 to 266.66 in 2005-'06.

- ❖ General Index for the year 2006-'07 increased to 262.37 from 208.31 in 2005-'06 with base year 1993-'94, showing an increase of about 25 per cent.

VI. 1. 2 Development Financial Institutions

Contributions of DFIs for Industrial Development in Kerala

- ❖ Both all-India development financial institutions and State level development financial institutions have contributed very much to the industrial development of the State.
- ❖ Among the all-India institutions, the SIDBI has highly assisted Kerala to the tune of 39.1% of the total sanctions that the State had got from various all-India institutions.

Assistance from KFC

- ❖ The KFC is the most important agency engaged in industrial promotion in Kerala.
- ❖ It provides term loan assistance up to a maximum of Rs. 500 lakh per unit for the corporate sector, and Rs. 200 lakh for others to develop and promote small and medium-scale units in the State.
- ❖ The total disbursement of the Corporation showed a diminishing trend year by year.

- ❖ From 2005-'06 onwards it showed an increasing trend.
- ❖ The Corporation distributed a total amount of Rs. 37,314 lakh during 2008 -'09, as against Rs. 24,555 lakh in 2007 - '08.
- ❖ The environment in the State in which the Corporation operates remained highly competitive with many scheduled commercial banks and co-operative banks chasing limited demand.
- ❖ In accordance with its strategies, the focus of the Corporation was more on addressing the industrial weakness than on bringing in new development.

VI. 1.3 KFC-Organisation and Management, Funds, Lending and Operations

Organisation and Management

- ❖ Kerala Financial Corporation has its headquarters at Thiruvananthapuram with sixteen branch offices across the State.
- ❖ At the moment, it has a Board of Directors with thirteen members. Unfortunately, all except the MD are found to have little time, little specialisation and little involvement in the affairs of the Corporation.

- ❖ The Chairman who does not have executive power is accountable to the Board. The Corporation has an executive committee with a delegated authority.
- ❖ It has also a full-time Managing Director who holds the second position in the organisation hierarchy. His position is followed by 2 GMs who have Deputy GMs and one Financial Controller as immediate subordinates.

Capital Structure

- ❖ Capital of the KFC consists of both own capital and debt capital. The total capital of the Corporation decreased from Rs. 56,003.75 lakh in 2002-'03 to Rs. 48,461.31 lakh in 2006-'07.
- ❖ The decrease was only in its debt capital which was Rs. 42,528.33 lakh in 2002-'03 and Rs. 32,554.89 lakh in 2006-'07.
- ❖ The own capital, showed an increasing trend with Rs. 13,475.42 lakh in 2002-'03 and Rs. 20,406 lakh in 2008-'09.
- ❖ The wiping out of accumulated loss has resulted in reduction of holding of all shareholders proportionately.

Debt to Equity

- ❖ The Debt-Equity ratio of the Corporation is far from equilibrium. It was 5 : 1 in 2002-'03 and 2006-'09. However, a slight increase was seen in 2003-'04 with a ratio of 5.09 : 1.
- ❖ This change brought about an average debt to equity ratio of 5.02 : 1 for the five years under study. It is found that the wide range in the debt and equity creates high interest burden on the Corporation every year.

Financial Restructuring

- ❖ The Corporation resorted to a financial restructuring exercise during 2009.
- ❖ The accumulated loss of Rs. 105 crores has been wiped out by setting off the loss against the paid-up share capital with the concurrence of SIDBI and Government of Kerala and also with the approval of the share holders vide Section 4E (2) (b) of the SFCs Act, 1951.

Diverse Schemes

- ❖ The KFC promotes industries in Kerala by granting financial assistance to existing units or to start new units and also to expand or diversify or modernise the existing units.

- ❖ The diverse schemes cover techno-crafts, fishing, hospitals, hotels, research and development, etc.
- ❖ The schemes for weaker sections of the society consisting of handicapped and women entrepreneurs, defence personnel, etc.
- ❖ All schemes are found to be framed to suit to remove the backwardness and unbalanced growth of Kerala.
- ❖ New schemes are under consideration to rehabilitate the jobless Gulf returnees.

Applications Received, Sanctioned and Pending

- ❖ Even if the KFC can claim credit for having made a spectacular progress and for having attained a high position amongst the SFCs of the country, during the period under study it shows a decreasing trend indicating diminishing popularity of KFC and its promptness in extending assistance.
- ❖ The total applications received during the period of study showed an AAG of (-)01.53 per cent and application for consideration for the same period showed an AAG of (-)03.74 per cent.
- ❖ A large number of applications are withdrawn or rejected or otherwise disposed of or cancelled or reduced.

- ❖ The piling up of pending applications which is represented by an AAG of 24.92 per cent calls for an in depth scrutiny to know the reasons for such accumulations.
- ❖ Effective sanctions of loans made by the KFC for the six years from 2002-2007 showed an AAG of (-)01.41.
- ❖ Total sanction as a percentage of application varied from 55.6 to 77.5.
- ❖ Disbursements as a percentage of sanction varied from 70.2 to 107.4.
- ❖ The wide gaps in sanctioning and disbursing were indicative of the Corporation's weak loan operations.
- ❖ With regard to recovery of loans disbursed, the Corporation did better during the period.
- ❖ Recovery as a percentage of disbursement was found to be on the increase and varied from 134.8 per cent to 286.2 per cent. This indicates the KFC's ability to have a comfortable recovery of loans.

Size-wise Sanctions

- ❖ As much as 50 to 70 per cent of the total sanctions of each year went to the non-SSI sector.

- ❖ An favourable trend was seen with regard to growth in the yearly sanctions to non-SSIs, which is represented by an AAG of 03.22 per cent.
- ❖ As regards the SSI sector, a worse situation represented by an AAG of (-)05.11 per cent was visible with regard to effective sanctions made each year.
- ❖ Only 29 to 40 per cent of total sanctions made by KFC went to the SSI sector.

District-wise Distribution of Loans

- ❖ The KFC has classified the 14 revenue districts of the State of Kerala into two categories, viz., backward and non-backward.
- ❖ The backward districts are Idukki, Wayanad, Alappuzha, Malappuram, Kannur, Kasargode, Thiruvananthapuram and Thrissur.
- ❖ The non-backward districts are Pathanamthitta, Kollam, Kottayam, Ernakulam, Palakkad and Kozhikode.
- ❖ A far better trend was visible with regard to yearly sanctions to each of the backward districts as all of them had a positive AAG ranging from 0.27 to 61.27 per cent.
- ❖ The yearly sanctions to the majority of the non-backward districts were represented by a negative AAG.

- ❖ The KFC, in consonance with the national object to remove the regional imbalances in economic development, expresses its commitment by extending more financial assistance to the units of the backward districts of the State of Kerala.

Amount-wise Categorisation of Loans

- ❖ The loanees within the smaller range of requirement (Rs. 50,000 to 20,00,000) were not duly entertained by the KFC as the AAGs of this range varies from (-) 7.10 per cent to (-)33.27 per cent.

Industry-wise Distribution of Loans

- ❖ The KFC was found to be concentrating on both traditional and non-traditional industries.
- ❖ Traditional industries like non-electricity, machinery, mining, paper, etc. and non-traditional industries like hospitals, metals, etc. did have favourable AAGs.
- ❖ The KFC considered bankable projects more.
- ❖ The important objective of diversification of industries was not found to have been achieved to the expected extent.

Financial Appraisal

- ❖ Analysis of variables such as Total Income, Net Profit, Current Recovery, Staff Expenses Ratio, etc., showed an adverse trend.
- ❖ Variables like Total Expenditure, Operating Profit, Capital Adequacy Ratio, Networth to Capital Employed and Debt to Equity showed favourable growth rates.
- ❖ This progress provided some scope for complacency.
- ❖ In short, the over-all performance over time does not make an unhappy reading and therefore the emerging scenario does not warrant any unrestrained criticism.

Systems of Loan Disbursement

- ❖ The Corporation offered both term loans and working capital loans to the MSMEs.
- ❖ It implemented an SME fund scheme to assist the industries.
- ❖ The limit of the amount of loan sanctioned to an industrial unit was Rs. 20 crore. This limit was determined as a percentage of the total cost of the project.
- ❖ The nature of security offered was also a determinant of the limit.

Pre-sanction Procedures

- ❖ The KFC identified its eligible loanees through different ways, viz., personal interview, verification of application, etc.
- ❖ The majority of them were identified through personal interview.
- ❖ KFC officials had the practice of paying visits to the units prior to sanctioning loans, to satisfy themselves as to the suitability of the location, site, transport facilities, feasibility of the project, etc.
- ❖ More visits and on-the-spot investigation helped in expediting the loan process, for one thing, and inculcating confidence in the beneficiaries, for another.

Moratorium on Repayment in the Gestation Period

- ❖ The KFC had the precedence of declaring a moratorium on repayment in the gestation period (or holding) for the repayment of loans given.
- ❖ The duration of such gestation period was determined, taking into account factors like income generation of the project, nature of operations of the unit, size of the unit, etc.
- ❖ Generally, a period ranging from one year to two years was registered as gestation period for manufacturing industries.

- ❖ On loans for acquisition of vehicles, only three months' time was considered as gestation period.

Repayment of Loans

- ❖ Two schedules of time were followed for this purpose. One is monthly repayment and the other is quarterly.
- ❖ For both the principal sum and interest of loans given for the acquisition of vehicles, repayment was to be made monthly.
- ❖ For all other loans, repayment of principal sum was to be made monthly and that of interest to be made quarterly.
- ❖ Working capital loans were to be repaid in a period of five years and term loans within a period as per the agreement made.
- ❖ On all repayments as per schedule, a rebate of one per cent was given as incentive. Such entrepreneurs might be given additional loans and technical assistance for the successful implementation or survival of the project.

Structure of Interest Rates

- ❖ Different structures of interest rate for different schemes and for different classes of loanees were duly justified.
- ❖ Experience shows that consequent on the weak management of the Corporation, a large number of errors did take place in the calculation of interest on loans.
- ❖ Penal interest was said to be often charged on default payments.

- ❖ Concessional rates are offered to the jobless persons and gulf returnees.

VI. 1. 4 Profile of Borrowers and their Units

Gender of Entrepreneurs

- ❖ The majority of the entrepreneurs who approached the KFC for financial assistance were male entrepreneurs.
- ❖ Only a minority (06.7 per cent) of women entrepreneurs approached it for assistance.

Educational Status

- ❖ Regarding the educational background of the loanees, they belonged to a wide variety ranging from school level to professional degree.
- ❖ A considerable percentage of them (35 per cent) had college level education.
- ❖ Those who had vocational or professional degree were a few.
- ❖ These facts do reveal that the educational qualification of entrepreneurs did not have any impact on the choice of their industrial activity.

Impact of Income from Abroad

- ❖ Income from abroad did not become a base to start an industrial unit by the entrepreneurs, as the majority of them (95 per cent) did not have such a source of income.

Previous Experience of Entrepreneurs

- ❖ Experience in manufacturing and trading activities had led the entrepreneurs to start an enterprise of their own.
- ❖ The majority of the units selected undertook manufacturing and trading activities.

Nature of Product

- ❖ Both traditional and non-traditional industries were found to be undertaken by the loanees.
- ❖ The majority of the entrepreneurs selected their particular industry because of self-motivation.

Size of Units

- ❖ The majority of the units (68.3 per cent) which obtained financial assistance from the KFC were non-SSIs.

Form of Organisation

- ❖ The selected units belonged to three forms, viz., sole proprietorship, partnership and company.
- ❖ About 45 per cent of the selected units were of sole proprietorship form and 25 per cent of partnership form.
- ❖ The lion's share of assistance from the KFC went to non-corporate entities.

Ownership of Premises

- ❖ The majority of the units selected for the study had their own business premises whereas a few did not have.

Number of Workers Employed

- ❖ Male workers dominated almost the entire work force of the units over the years.
- ❖ The share of male workers varied from 73.6 per cent to 78.1 per cent.

Generation of Additional Mandays

- ❖ The units under study generated on the average 293.46 to 316.02 mandays additionally per year consequent on the use of KFC's finance..

Financial Profile of the Sample Units

- ❖ The units arranged finance from the KFC and some other sources to finance their working and permanent capital.
- ❖ The average of total investments of the 60 sample units over the years came to Rs. 41.8 lakh.
- ❖ The use of KFC's assistance in fixed capital was seen more consistent than any other investment.
- ❖ The total capital of the units showed a yearly average which ranged from Rs. 24.69 lakh to Rs. 51.16 lakh.
- ❖ The working capital showed a yearly average ranging from Rs. 13.28 lakh to Rs.36.64 lakh.

Gross Profit of Industries

- ❖ The annual average Gross Profit of the sample units taken together ranged from Rs. 4.55 lakh to Rs. 9.39 lakh.
- ❖ The industry-wise analysis showed that industries like Electricals, Electronic, Wood, Building materials, etc. had higher G/P ratio, indicating adequate Gross Profit to cover the operating expenses and to provide for fixed charges and building-up reserves.

- ❖ Industries like Food items, Chemicals, Textiles, Rubber, etc. were characterised by low G/P ratio, indicating poor purchasing and mark-up policies.

Net Profit of Industries

- ❖ All industries give a very good portion of sales to the proprietors after deducting all expenses, as they were characterised by high N/P ratio.

Absorption of Net Sales of Industries

- ❖ Only the wood industry had a comfortable situation as it was characterised by a high Operating Ratio (85 per cent) and low Operating Profit Ratio (15 per cent).
- ❖ No other industries had such a favourable position.

Liquidity and Working Capital Management

- ❖ Industries including Electronic, Food items, Chemicals, Textiles, Hotels, Studio, Paper, etc. had a higher current ratio which indicated that they maintained very high liquidity.
- ❖ Industries consisting of Electricals, Wood, Metallic engineering, Agro-based, Rubber, Leather and Building materials had a current ratio very near to the standard 2 : 1 prescribed for current ratio.

Debt versus Equity of Industries

- ❖ The owners had the first claim on assets of the units over the creditors because the Debt to Equity of all industries ranged from 0.15 : 1 to 0.67 : 1.

Overall Profitability of Industries

- ❖ The Textile industry had a very high ROI.
- ❖ All other industries, except the Electronic industry, had an attractive situation with regard to the overall profitability.

Strength / Weakness of Industries

- ❖ The Rubber industry was found to be stronger than all other industries as it had an M/S of 84.7 per cent, which indicated its entry in the profit zone regardless of the decrease or increase of sales volume.
- ❖ All other industries were strong enough as they were also characterised by high M/s.

VI.1. 5. Loanees' Perception on the Assistance from the KFC For Entrepreneurial Growth

Information About the Service of the KFC

- ❖ The loanees had come to know about the service of the KFC through various sources, viz., the press, friends, relatives, electronic media, loan melas and KFC programmes.
- ❖ Information through the friends and relatives as also the official campaign programmes of the KFC and DICs, had been very effective in this respect.

Details of Loan Availed of

- ❖ Wide inconsistency existed with regard to the amount of loan disbursed, sanctioned and applied for as these were characterised by a co-efficient of variation of 130.76 per cent, 125.46 per cent and 118.65 per cent respectively.

Purpose of Loans

- ❖ The loanees utilised the loans taken from the KFC for varied purposes, viz., starting the unit, diversification, rehabilitation, modernisation, expansion, etc.
- ❖ The Majority of the assistance obtained from the KFC was utilised for the purpose of starting new units.

Cost of Borrowing

- ❖ Different costs are associated with the process of borrowing from the KFC. They include documentation cost, travel and food expenses and other expenses.
- ❖ Cost of borrowing from the KFC was found to be less than that of the commercial banks.

Types of Security Insisted

- ❖ The KFC released loans on personal and collateral securities.
- ❖ It preferred collateral security to personal security for the simple reason of easy and comfortable recovery of loans given on collateral security.

Authority for Valuation of Collateral Security

- ❖ The KFC had the practice of valuing the securities either by its officials or by outside valuers.
- ❖ The security of the majority of loans was valued by the KFC officials themselves.

Correctness of Valuation of Security

- ❖ Complaints were often raised against the mode of valuation of security by the KFC.

- ❖ The majority of the loanees opined that their security was undervalued by the Corporation.

Extent of Undervaluation of Collateral Security

- ❖ The Majority of the borrowers who were not satisfied with the adequacy or correctness of valuation of security by the KFC stated that it was undervalued by 40 per cent of its value.
- ❖ The opinion in general in this regard showed an undervaluation varying from 20 per cent to 60 per cent of its real value.

Other Sources of Finance of the Borrower Units

- ❖ The industrial units of Malappuram, Thiruvananthaapuram and Ernakulam districts, which had obtained financial assistance from the KFC, had arranged finance from the other sources also.
- ❖ Such sources included : own fund, money lenders, friends, relatives and banks. No units of Idukki had arranged finance from such agencies.
- ❖ Among the other sources, own fund and finance from money lenders occupied the first and second positions respectively.

Time Lag between Application and Sanction of Loan

- ❖ This is a serious evil that the borrowers confront.
- ❖ The majority of the units in any district had to wait longer for getting the loan sanctioned by the KFC.

- ❖ The time lag varied from one month to five months.

Time Lag between Sanction and Disbursement of Loan

- ❖ The KFC took more time to disburse the loan after its sanctioning.
- ❖ The time lag in disbursement varied from one month to five months.

Details of Further Attempts Made to Get the Loan

- ❖ Even though the borrowers insisted on the easiest and earliest sanctioning of loans by KFC, the majority of them did not make further attempts including influence in this direction despite the delayed sanction or disbursement.
- ❖ Only 25 per cent of the total units had undergone such practices.

Mode of Disbursement of Loan

- ❖ The KFC has the practice of disbursing loans either directly to the borrower units or to the suppliers of various inputs of the borrowers.
- ❖ It preferred disbursement directly to the borrowers.

Adequacy of Working Capital Loan

- ❖ The KFC had fared well in releasing loans for term-credit. It had failed miserably year after year in providing adequately for working capital financing.

- ❖ As much as 63.3 per cent of the borrower units opined that the working capital loan given by the KFC was not adequate and often they had to resort to other sources for this.

Utilisation of Working Capital Loan

- ❖ The borrower units used the working capital loans obtained from the KFC mainly for three purposes, viz., purchase of raw materials, payment to creditors, and meeting other expenses.
- ❖ Almost all units - with the exception of units of Idukki for payment to creditors - utilised the working capital loan for all the three purposes.

Additional Loan for Expansion or Diversification Needs

- ❖ Often the loan granted for the first time was not found sufficient, for various reasons.
- ❖ The KFC had not often considered the request of the majority of the units (51.7 per cent) for additional loan.
- ❖ It preferred new units to existing units for its lending operations.

Premature Closing of Loan

- ❖ Only 43.3 per cent units made premature closing of loan to the KFC. The rest did not make such premature repayment.

Default in Repayment of Loan

- ❖ The Majority of the borrower units failed largely in making prompt repayment of the loan.
- ❖ Only a minority of 28.33 per cent made such prompt repayment.

Details of Incentive / Rebate offered for Prompt Repayment of Loans

- ❖ The KFC provided a rebate of one per cent to its borrowers on all prompt repayments of loans.
- ❖ Such rebates were paid only if : (1) There was not any arrear in the loan accounts on the due date of interest, and (2) The interest was remitted within 8 days from the due date.
- ❖ There was a rebate holiday for the period from 15-10-2003 to 01-09-2004.
- ❖ According to the beneficiary units, such incentives were obtained only by 86.0 per cent of them.
- ❖ A total of 6 units which had made prompt repayment did not enjoy any such benefit, for various reasons.

Reduction / Exemption of Interest on Prompt Repayment

- ❖ The KFC offered reduction in interest rates for the existing loans-bearing high rate of interest-subject to the condition that at least 50 per cent of arrears of interest should be cleared.

- ❖ The loanees who were continuously in *standard category* for a minimum period of 03 years could get reduction in the rate of interest applicable for fresh loans, provided they obtained the minimum credit rating stipulated.
- ❖ As far as the borrower units were concerned, a minority of them (21.7 per cent) did not enjoy this benefit for the reason that they did not comply with the condition that at least 50 per cent of arrears of interest should be cleared or because of their non-belonging to the *standard category* for a minimum period of three years.

Request for Rescheduling the Repayments

- ❖ Only 28.3 per cent of the borrower units approached the KFC with a request to have the repayment rescheduled.

Response of KFC to Request for Rescheduling of Loan Repayment

- ❖ Out of the 17 units (i.e. 28.3 per cent) which made requests for rescheduling the loan repayment, only 11(64.7 per cent) were favourably considered and the rest were not.

Opinions of the Borrowers about the Service of KFC

- ❖ As much as 43.3 per cent of the borrower units commented that the service of the KFC was very good.
- ❖ About 28.4 per cent commented it to be good.

- ❖ Another set of 18.3 per cent opined that the service of the Corporation was satisfactory and the remaining 10 per cent were not satisfied with its service at all.

Suggestions of Borrower Units to Improve the Functioning of KFC

- ❖ Borrower units of Idukki, Malappuram and Ernakulam districts suggested reduction of the interest rate.
- ❖ The Majority of the units of Thiruvananthapuram suggested frequent contact and feedback on the part of the KFC officials for its improved functioning.

VI. 2 Recommendations

The findings and conclusions of the study confirm that the Government of Kerala and the KFC are constantly endeavouring for the promotion and development of industrial units in the State. Despite these efforts, industrialisation is still far behind in Kerala. As industrialisation provides more employment opportunities and better utilisation of resources, everything possible should be done to strengthen this process.

An attempt is made here to make some recommendations for the improved performance of the Corporation. Suggestions are made to: (1) the KFC, (2) the Government of Kerala, and (3) the Entrepreneurs.

VI. 2. 1 Recommendations to the KFC

1. The KFC should serve as a facilitator in the efforts of the entrepreneurs. Different campaign programmes may be arranged at different centres to spread awareness about entrepreneurship and industrial finance, and the diverse schemes of assistance.
2. The KFC should have a liaison with the local bodies. Active participation in the project formulation of such bodies should be ensured. For this, specialised officers may be appointed.
3. The KFC has a major role to play in the creation and diversification of industries. This could be possible only when, instead of concentrating on the orthodox consumer goods, the KFC invests in potential arrears of new ventures in Bio-chemical, Information Technology, Agro-processing, Building Materials, etc. in consonance with the priorities of industrial development.
4. The KFC should set up a permanent machinery to bifurcate the projects into viable and non-viable and be ready to finance the full amount of loans if the projects are proved to be viable and feasible. This helps avoid the allegation that the KFC has not catered to the needs of genuine industrialists in the MSME segment.
5. The KFC should reduce the rate of interest of loans. This is possible if the KFC mobilises deposits from the general public. Fortunately, the

State of Kerala is blessed with huge remittances from abroad. Studies do reveal that many NRIs who do not insist on receipt of interest on deposits as is envisaged by the law of *shariya*, make deposits of huge sums with the commercial banks. The major share of such deposits goes to the nationalised commercial banks, which is alleged to be taken outside the State. The KFC should do everything possible to mobilise such cost-free deposits. The KFC being a State-oriented institution, the amount can be utilised in the State itself. Or, at least the KFC may locate such persons and try to make them entrepreneurs. *It should Promote the micro finance system.*

6. Consequent to the on going global recession, a large number of people are found to be jobless and mass return of such jobless persons from abroad and other State is being witnessed day-by-day in Kerala. The KFC should frame suitable schemes to assist such people to start with industry or trade of any kind.
7. The KFC may insist on more transparent and flexible norms with regard to the procedures to be complied with, to sanction the loans. More friendly approach on the part of the officials is to be ensured.
8. The KFC may take necessary steps to avoid the undue lag in sanctioning and disbursing the loans. The loans should be disposed of at the most within one month of receipt of the applications.

9. Proper repayment of loans may be ensured. Reschedule of loan repayment may be given to prosperous loanees. Smooth and comfortable steps may be followed for this. Further, an official loan monitoring system may be implemented to ensure that the NPAs of the units are not accumulated.
10. Regarding the security for loans, personal guarantees may be avoided, as there are chances of misuse and bias. Further, it calls for various issues in connection with recovery. Only collateral securities may be insisted on. However, they should not be too high in value.
11. Diversion of funds by the loanees is found to be a common phenomenon. The officials of the KFC should ensure that no such diversion is made. For this, they have to be satisfied about the genuineness of purpose of the loan. Further, misuse or diversion of funds can be checked to a great extent if the funds are directly given to the suppliers of various inputs of the borrower units or meeting the deferred payments.
12. The large number of applications withdrawn or rejected or otherwise disposed of or cancelled or reduced calls for attention of the Corporation for the simplification of its procedures and gaining of greater popularity about its various schemes.
13. A separate time bound programme should be launched for the revival of sick units.

14. New performance indicators should be framed to evaluate the performance of the Corporation in the MSME promotion sector, so as to enable it to give push-up to the decentralised industrial sector of the State.
15. Above all, the KFC should impart a human face to its entire lending operations. The employees need be given orientation courses from time to time, so that they can be of greater help to the entrepreneurs.

VI. 2. 2 Recommendations to the Policy Makers (Government of Kerala and the State Planning Board)

1. There must be conscious recognition of various problems of industrial units, on the part of the Governments. The Government of Kerala and the State Planning Board should adopt new policies, rules and regulations to bring the KFC and entrepreneurs closer.
2. The Keralites have a risk-averse mindset towards industrialisation. The Government has to do the best to avoid this trend especially among Keralites who have income from abroad by conducting awareness programme like the GIM.
3. The Board of Directors of the KFC is found to be packed with officials and bureaucrats. A practice of appointing chief executives with specialised knowledge, business outlook and result-oriented attitude should be developed. Frequent reshuffling of the directors and

chief officials must be checked to enable them to have a long tenure of office.

4. A flexible approach should be adopted to support the entrepreneurs, especially those who are to be revived from the so-called industrial sickness (i.e. rehabilitation of the unit).
5. A greater linkage between development outlook, priorities and strategies should be effected for the improved performance of the KFC. This can be achieved to a great extent if the functioning of the KFC is co-ordinated with those of the local bodies, co-operative banks of the State, and the District Industries Centres.
6. The stronger the financial base of the KFC, the greater the scope for extensive financing and diversified industrialisation. The Government of Kerala, with this end in view, should do everything possible to strengthen the resource base of the KFC.
7. The Government of Kerala have to develop and strengthen the Common Facility Centre in the same lines of clustering of industries carried out in Thirupur in Tamil Nadu. This facility enables the MSMEs to share various physical facilities at low cost.
8. Education programme on industries should be widened. The Entrepreneurship Development Clubs launched in the schools and colleges across the State should be made as the force to inculcate

entrepreneurial culture amongst the youth and equip them with skills, techniques and confidence to act as torch-bearers for enterprise for the new generation.

9. Do materialise the proposal for the rehabilitation of the Gulf returnees who became jobless owing to the ongoing global recession
10. Strengthen and simplify the Single Window Scheme for the MSMEs.

VI. 2. 3 Recommendations to the Entrepreneurs

1. The entrepreneurs should be very serious about starting or running an industrial activity. A mindset for doing something to enjoy various benefits should be effaced at the grass-roots level itself.
2. A sense of self-help should be developed. Assistance from the Government or from various financial institutions should be treated as secondary or even the last resort. In other words, a limit to the extent of assistance sought from such agencies should be fixed.
3. Entrepreneurs have to ensure that no funds are diverted for other needs.
4. Develop a practice of repaying the instalments regularly.
5. They must ensure that their projects are not incomplete or badly formulated. Every information about the project should be disclosed to the officials of the KFC if assistance is sought from it.

6. The entrepreneurs must try to improve the quality of the product or service they deal in. Likewise, the employees, creditors, suppliers of inputs, customers, and all other related agencies should be taken into confidence and a fair deal should be extended to all.

VI. 3 Conclusion

The industrial sector of India considerably contributed to the sustained expansion of Indian economy during 2006-'07. The GDP growth rate accelerated to 9.4 per cent during 2006-'07 from the 9.0 per cent level of 2005-'06, whereas the industrial sector of Kerala has not registered a significant development yet. The average growth rate for the period from 1999-2000 to 2007-'08 was 4.9 per cent and 8.5 per cent at constant and current prices respectively. Growth is found to have been achieved only in a few industries, viz., chemical, chemical products, machinery and equipment. Conventional industries like cotton textile, coir, cashewnut, etc., suffered a lot from problems such as outdated technology, unhealthy competition, labour unrest and finance.

Various Government-sponsored financial agencies have to play vital role in alleviating the problem of finance of industries. The KFC is the most important agency engaged in industrial promotion in Kerala. It provides term-loan assistance up to a maximum of Rs. 500 lakh per unit for the corporate sector and Rs. 200 lakh for others to develop and promote small and medium-scale units in the State. The total disbursement of the Corporation has shown a diminishing trend year by year. However a reverse trend is seen recently. The

KFC distributed a total amount of Rs. 29339.26 lakh during 2008 - '09 compared to Rs. 8423.8 lakh in 2007 - '08. The environment in the State in which the Corporation operates remained highly competitive with many scheduled commercial banks and co-operative banks chasing limited demand. In accordance with its strategies, the focus of the Corporation was more on addressing the weakness than on bringing development. The present study on KFC has been undertaken in this context.

Six main hypotheses (*five null hypotheses and one alternate hypothesis*) consisting of a total of sixteen sub-hypotheses have been formulated and tested; seven have been accepted and nine rejected. The following conclusions have been arrived at.

1. The borrower units generally came to know about the service of the KFC through various sources, viz., friends, relatives, press, electronic media, loan melas, DICs, KFC programmes, etc. The null hypothesis formed to test the significance of relationship between the source of information about KFC and the region of the industrial units has been accepted. It means that the source of information of the borrower units about the service of the KFC is similar in all regions i.e., the beneficiary units of each district have more or less the same source of information.
2. An important issue deserving consideration for financial assistance from the KFC is that of the time gap between registration of application

and sanction of the loan. The null hypothesis formed on the dependence of the time lag and the various regions of the units has been accepted. It indicates that there is no relationship between the time lag and regions where the units are situated. In other words, the units of each district have their own experience with regard to the delay in loan sanctions.

3. The Corporation often makes undue delay in the disbursement of the loans already sanctioned. The null hypothesis formed to test the significance of relationship of time lag in the disbursement and the region where the units are situated has been accepted. This means that the delays made in the disbursements in all the districts are not related to one another.
4. The KFC follows different ways of disbursement of loans to the units, which include direct disbursement of cash to the units themselves, payment to various clients / customers (suppliers of inputs) of the units, and partially to the units and to such clients. The null hypothesis formed to test whether all districts have the same pattern has been accepted, indicating that all districts follow similar method of disbursement of loans to the borrower units.
5. Often, the financial assistance from the KFC is not sufficient to meet the requirements of the borrower units. Therefore, they have to approach other agencies like money lenders, friends, relatives, banks, etc., to

make good the shortage. Whether such other sources of finance and the regions are associated is tested with the null hypothesis which has been accepted. It, therefore, means that the units from different districts have the same secondary sources of finance other than the KFC.

6. Units of different forms like sole proprietorship, partnership firms and companies approach the KFC for financial assistance for varied purposes like starting the unit, diversification, modernisation, rehabilitation, expansion, etc. Each form of organization does not have a particular purpose of arranging finance from the KFC. The null hypothesis formed to test the dependence between the form of organisation and the purpose of loan has been accepted.
7. As much as 36 units (60%) regardless of the form of organisation, have confronted some difficulties in getting loans from the KFC. This has been tested with the null hypothesis as to the dependence between such difficulties and the form of organisation of the borrower units, and the hypothesis has been accepted.
8. The KFC has the practice of getting its loans sanctioned with collateral and / or personal security of the borrower units or borrowers. The Corporation determines the nature of security, taking into consideration the size of the borrower unit. For tiny and medium sized units, collateral security is preferred whereas for SSIs both are equally considered. This was tested with the rejection of the null

hypothesis as to the relationship between the type of security and the size of units.

9. With a view to having follow-up and recovery of loans, the KFC adopts some measures which include periodical visits, reduction in interest rates, guidance, etc. Whether those measures have any interdependence with the size of units has been tested with the rejection of the null hypothesis indicating that the KFC has some selective measures in this regard towards the units on the basis of their size.
10. The KFC does not have a uniform practice in determining the amount to be sanctioned to the units in all districts. The null hypothesis formed to test the variation, if any, in the amount of loan sanctioned to the units of various regions has been rejected, indicating that the KFC has some discriminations in this regard.
11. Utilisation of the loan amount by the units of different districts is not in the similar way. A null hypothesis has been formed as to the variation of such utilisation in different districts. It has been rejected, indicating that the loans sanctioned are utilised by the units of different districts in their own ways.
12. Regarding the opinion of the beneficiary units about the service of the KFC rendered to them, the units of some districts are extremely dissatisfied while others are not. It has been tested with the rejection of the null hypothesis. Similarly, units of different forms and size have

different opinions about the service of the KFC as the null hypotheses as to these have also been tested with their rejection.

13. The KFC gives financial assistance to the entrepreneurs regardless of their gender. No discrimination is made between male and female entrepreneurs. This has been tested with the rejection of the alternate hypothesis.
14. The male and female entrepreneurs who have secured loans from the KFC do utilise the loans almost similarly. It has been tested with the rejection of the alternate hypothesis.

While concluding, no research work is perfect and complete by itself. But every research contributes to the horizon of human knowledge. It shows light to further researches. The present study is a humble attempt on the role of the KFC in industrialization and it locates many research gaps to be filled in on some major issues pertaining the Development Financial Institutions, viz.

1. *Role of development banks on the revival of sick units in Kerala,*
2. *The impact of the ceasing of development status of IDBI on industrialisation.*
3. *Significance of survival and revival of State-owned DFIs in the context of global recession.*

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www.idbi.com; (IDBI)

www.ifin@hathway.com(IFC);

www.infinserv@bol.net.in; (KSIDC)

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APPENDIX I

ROLE OF STATE LEVEL DEVELOPMENT FINANCIAL INSTITUTIONS IN THE INDUSTRIAL DEVELOPMENT OF KERALA WITH SPECIAL REFERENCE TO THE KERALA FINANCIAL CORPORATION (KFC)

QUESTIONNAIRE FOR BENEFICIARY UNITS

Sample Unit No. ()

District Category:

Date :

District Name:

PROFILE OF THE ENTREPRENEUR

1. Name.....

Location.....

2	Sex	A	Male	<input type="checkbox"/>
		B	Female	<input type="checkbox"/>
3	Age	A	Below 30	<input type="checkbox"/>
		B	30 - 40	
		C	40 - 50	
		D	50 - 60	
		E	Above 60 years.	
4	Educational qualifications	A	Illiterate.	<input type="checkbox"/>
		B	School level	
		C	College level	
		D	Professional degree	
5	Experience in entrepreneurship	A	No experience	<input type="checkbox"/>
		B	As Manufacturer	
		C	As Trader	
		D	As Agent	
6	Number of years of experience			<input type="checkbox"/>
7	Size of family (Family members)	A	1 - 3	<input type="checkbox"/>
		B	4 - 6	<input type="checkbox"/>
		C	Above 7	
8	Number of earning members in the family			<input type="checkbox"/>
9	Annual income of your family prior to the commencement of the unit	A	Upto Rs. 5000	<input type="checkbox"/>
		B	5001 - 10,000	
		C	10,001 - 20,000	
		D	20,001 - 30,000	
		E	Above Rs. 30,000	

PROFILE OF THE UNIT

10	Year of promotion and name of organisation		
11	Nature of business	A B C D	Manufacture <input type="checkbox"/> Trading Servicing Others (specify)
12	Nature of product	A B C D E F G H	Electrical <input type="checkbox"/> Electronic Food items Chemicals Wood Metallic (Engineering) Agro-based Others (specify)
13	Size of the unit	A B C D	SSI Unit <input type="checkbox"/> Medium sized Large Others (specify)
14	Form of organisation	A B C D	Sole Proprietorship <input type="checkbox"/> Partnership Company form Cooperative society
15	Reason for selecting this business	A B C D E F	Self motivated <input type="checkbox"/> Guided by Government official " KFC official As per the advice of friends and relatives Lack of similar unit in that locality Others (specify)
16	Ownership of premises	A B C	Owned <input type="checkbox"/> Rented Industrial Estate
17	Is the unit registered as a woman enterprises ?	A B	Yes <input type="checkbox"/> No

18. Number of workers employed

Year	Male	Female	Total
2002-03			
2003-04			
2004-05			
2005-06			
2006-07			

19. Number of working days generated consequent on the employment of KFC's Assistance

Year	Days
2002-03	
2003-04	
2004-05	
2005-06	
2006-07	

20	Did you have any difficulty in starting/running the unit?	A Yes <input type="checkbox"/>	B No <input type="checkbox"/>												
21	If Yes, rank them.	A Shortage of finance B Labour unrest C Technical problems D Marketing problems E Power problems F Others (Specify)	<table border="1"> <thead> <tr> <th>1</th> <th>2</th> <th>3</th> <th>4</th> <th>5</th> <th>6</th> </tr> </thead> <tbody> <tr> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> </tbody> </table>	1	2	3	4	5	6						
1	2	3	4	5	6										

FINANCIAL PROFILE

22. Total investment

		<u>Share from KFC</u>	
A. In working capital	.. Rs.	Rs.	
B. In fixed capital	.. Rs.	Rs.	
Total		.. Rs.	Rs.

23	How did you come to know about the lending schemes of KFC?	A	Through friends and relatives <input style="float: right;" type="checkbox"/>
		B	Through press
		C	Through electronic media
		D	Through loan melas
		E	Through 'Janakeeya-suthranam' programme.
		F	Through KFC programmes

24. Details of loan taken

Year of app ln.	Type of loan	Amount applied for	Amount sanctioned	Amount disbursed	Amount utilized	Rate of int.	Subsidy if any	No. of installments of loan payment	No. of installment of repayment	Gestations Period for loan

25	Purpose of loan	A	Working capital financing	<input type="checkbox"/>
		B	Fixed Assets financing	
		C	Both	
26	What type of security was required?	A	Collateral	<input type="checkbox"/>
		B	Personal	
		C	Personal and collateral	
27	Who did value the security ?	A	Approved Valuers	<input type="checkbox"/>
		B	KFC officials	
		C	Both	
28	Do you think that it was Undervalued?	A	Yes	<input type="checkbox"/>
		B	No	
29	If Yes, how much it was undervalued?	A	20%	<input type="checkbox"/>
		B	30%	
		C	40%	
		D	50%	
		E	60%	

30	How the shortage in project cost was mobilized?	A B C D E	Money lender Own fund Friends Relatives Others (specify)	<input type="checkbox"/>												
31	Did you face any difficulty in obtaining the loan?	A B	Yes No	<input type="checkbox"/>												
32	If yes, please rank the difficulties faced	A B C D E	Procedural Difficulties Recommendation from well-known persons Security problems Delay in getting Finance High rate of interest	<table border="1"> <tr> <td>1</td> <td>2</td> <td>3</td> <td>4</td> <td>5</td> <td>6</td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> </table>	1	2	3	4	5	6						
1	2	3	4	5	6											
33	Did you use any influence to get the loan sanctioned?	A B	Yes No	<input type="checkbox"/>												
34	If yes, the type of influence used (Rank)	A B C	Personal Contacts Political Influence Any other (specify)	<table border="1"> <tr> <td>1</td> <td>2</td> <td>3</td> </tr> <tr> <td></td> <td></td> <td></td> </tr> </table>	1	2	3									
1	2	3														

35. Expenses met for getting the assistance

1.	Documentation Charges	Rs.
2.	Travel and Food	Rs.
3.	Other Expenses	Rs.
	Total	Rs.

36	Time lag between application and sanctioning	A B C D E	One month One month to Two months Two month to Three months Three months to Four months Above Four months	<input type="checkbox"/>
37	Time lag between sanctioning and disbursement	A B C D E F	One month One month to Two months Two month to Three months Three months to Four months Four months to Five months Above Five months	<input type="checkbox"/>

38	How did KFC disburse the loan?	A B C	To self To Suppliers of plant and machinery/raw materials To both	<input type="checkbox"/>
39	Was the sanctioned working capital sufficient to run the unit efficiently?	A B	Yes No	<input type="checkbox"/>
40	How working capital was utilized?	A B C	To buy raw materials To meet creditors To meet other expenses (specify)	<input type="checkbox"/>
41	Does KFC consider request for further loan for expansion/diversification?	A B	Yes No	<input type="checkbox"/>
42	Does it offer any incentive for regular payment of installment?	A B	Yes No	<input type="checkbox"/>
43	Have you been given any subsidy or exemption?	A B	Yes No	<input type="checkbox"/>

If Yes, please explain.....

44	What is your opinion of the service of KFC?	A B C D	Good Very good Satisfactory Below satisfactory	<input type="checkbox"/>
45	What methods are adopted by KFC to follow up and recovery of loan?	A B C	Periodic visits Reduction in interest rates Guidance	<input type="checkbox"/>

46. Furnish the following details

Year	Total capital	Term Loan	Working Capital	Sales revenue	Expenses	Gross Profit	Net Profit

47	Have you ever closed the loan in premature?	A	Yes	<input type="checkbox"/>										
		B	No											
48	Are you prompt in repaying the loan?	A	Yes	<input type="checkbox"/>										
		B	No											
49	Number of installments in default													
50	Have you ever made any request to reschedule the repayments?	A	Yes	<input type="checkbox"/>										
		B	No											
51	What was the response of KFC?	A	Favourable	<input type="checkbox"/>										
		B	Unfavourable											
52	Are your assets hypothecated to KFC?	A	Yes	<input type="checkbox"/>										
		B	No											
53	Please rank your suggestions, if any, to improve the functioning of KFC	A	Frequent contacts and feedback	<table border="1"> <tr> <td>1</td> <td>2</td> <td>3</td> <td>4</td> <td>5</td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> </table>	1	2	3	4	5					
1	2	3	4		5									
		B	Reduction of interest rate											
		C	Simplify the procedural aspects											
		D	Strengthen single window scheme											
		E	Have more transparent repayment schedule											

APPENDIX II

ROLE OF STATE LEVEL DEVELOPMENT FINANCIAL INSTITUTIONS IN THE INDUSTRIAL DEVELOPMENT OF KERALA WITH SPECIAL REFERENCE TO THE KERALA FINANCIAL CORPORATION (KFC)

INTERVIEW SCHEDULE FOR THE KFC OFFICIALS/EXECUTIVES.

This is a study undertaken by N.K. Babu, Lecturer in Commerce, M.E.S. Asmabi College, Kodungallur under the supervision and guidance of Dr. V.K. Janardhanan, Reader, Department of Commerce and Management Studies, University of Calicut. The researcher agrees to keep every information obtained through this interview schedule strictly confidential. Further this information will be used only for the purpose of academic research work. The identity of the interviewee will not be disclosed. Wholehearted cooperation from your part will be gratefully acknowledged.

Name of the officer:

Post held by the officer:

I. GENERAL INFORMATION

1. Types of financial assistance offered by the Corporation (Fill the columns with respective codes)

Size	Term loan	Working capital loan	Both
SSI Units			
Medium Units			
Large Scale unit			

- (a) Term loans
- (b) Working Capital loans
- (c) Both
- (d) Other loans (please specify)

2. What is the limit of loan amount? (Fill the columns with respective codes)

Size	Term loan	Working capital loan	Both
SSI Units			
Medium units			
Large scale units			

- (a) Upto Rs. 1,00,000
- (b) 1,00,001 – 2,00,000
- (c) 2,00,001 – 4,00,000
- (d) 4,00,001 – 8,00,000
- (e) 8,00,001 – 15,00,000
- (f) 15,00,001 – 25,00,000
- (g) Above 25,00,000

3	What is the base for fixing the loan limit?	A Total cost of the project <input type="checkbox"/>
		B Total capital of the unit <input type="checkbox"/>
		C Fixed limit
		D Others (specify)
4	What is the base for deciding the amount to be sanctioned in each case?	A Capacity of the borrower <input type="checkbox"/>
		B Cost of the project
		C Working capital needs
		D Both (B) and (C)
		E Others (specify)
5	How do you identify eligible borrowers?	A Personal interview <input type="checkbox"/>
		B Verification of application
		C Both (A) and (B)
		D Through other agencies (specify)

6	Do you give any priority to women entrepreneurs?	A	Yes	<input type="checkbox"/>
		B	No	
7	If Yes, what are the privileges given?	A	Lower interest rates	<input type="checkbox"/>
		B	Subsidies	
		C	More time for repayment	
		D	Exemption from securities	
		E	Technical and financial advices	
		F	All of the above	
		G	Others (specify)	
8	Who are the other entrepreneurs considered for giving subsidies/concessions or exemptions?	A	Remote and hilly areas	<input type="checkbox"/>
		B	Weaker sections	
		C	Physically handicapped groups	
		D	Cottage industries	
		E	Others (specify)	

9. Explain such schemes offered.

10.	Procedures to be followed by the entrepreneur to get the loan. (Rank them)	A	Submission of project report	<table border="1"> <tr> <td>1</td> <td>2</td> <td>3</td> <td>4</td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> </tr> </table>	1	2	3	4				
1	2	3	4									
		B	Adequate security									
		C	Compulsory registration									
		D	Investing the initial capital									
11.	How many visits do you make to the borrower prior to the sanctioning of loan?	A	Once	<input type="checkbox"/>								
		B	Twice									
		C	Thrice									
		D	More									
12.	Do you have a separate cell for evaluation of the project?	A	Yes	<input type="checkbox"/>								
		B	No									
13.	Type of security insisted for granting the loan	A	Land & building	<input type="checkbox"/>								
		B	Plant and machinery									
		C	Other collateral security (specify)									
14.	What is the time lag between applications and sanctions ?	A	7 days	<input type="checkbox"/>								
		B	14 days									
		C	30 days									
		D	More than 30 days									

II. TIME LAG IN SANCTIONING AND DISBURSEMENT OF LOANS

15.	What is in your opinion the reason for delay in sanctioning of loan?	A	Scrutiny of application	
		B	Pre-sanction inspection	
		C	Getting sanction from higher authority	
		D	Delay in presenting the relevant documents by the applicant.	
		E	Others (Specify)	<input type="checkbox"/>
16.	What is the time lag between sanction and disbursement?	A	7 days	
		B	7 -14 days	
		C	More than 14 days	<input type="checkbox"/>
17.	What are in your opinion the reasons for delay in disbursement of sanctioned loan?	A	Non-fulfillment of the norms	
		B	Not providing the required margin for the loan	
		C	Delay in getting the license	
		D	Official procedures	
		E	Lack of proper security	<input type="checkbox"/>
		F	Others (specify)	

III. REPAYMENT, OVERDUES AND RECOVERY

18.	Is there any moratorium during the gestation period for repayment?	A	Yes	
		B	No	<input type="checkbox"/>
19.	What is the base for fixing the gestation period?	A	Category of the borrower	
		B	Income generation	
		C	Nature of operation of the unit	
		D	Size of the unit	
		E	All of the above	<input type="checkbox"/>
		F	Others (specify)	

20. What is the repayment schedule of the loan?
(Put \checkmark mark in respective columns)

	Monthly	Quarterly	Half yearly	Yearly	Others (specify)
SSI Units					
Medium Units					
Large scale unit					

21. What is the time limit for repayment of loan?
(Put \checkmark mark in the appropriate column)

	Working Capital		Term Loan	
	Up to one year	More than 1 year	Up to 5 year	More than 5 years
SSI Units				
Medim units				
Large scale units				

22	If repayments are as per the schedule, do you give any incentive to such customers?	A B	Yes No	<input type="checkbox"/>										
23	If loans are not repaid as per the schedule, what are the steps for recovery? (Rank them)	a b c d e	Notice Personal persuasion Legal steps Recovery Others (Specify)	<table border="1"> <tr> <td>1</td> <td>2</td> <td>3</td> <td>4</td> <td>5</td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> </table>	1	2	3	4	5					
1	2	3	4	5										
24	What is the reason for overdue ? (Rank them)	a b c d	Attitude of customer Problems faced by the unit affecting income and expenditure Non-viability of the customer Others (specify))	<table border="1"> <tr> <td>1</td> <td>2</td> <td>3</td> <td>4</td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> </tr> </table>	1	2	3	4						
1	2	3	4											
25	What are your suggestion for improving the repayment?	a b c d e	Reduction of interest rate Extension of time of repayment Renewal of the loan Provision of incentives for timely/earlier payment New enactment Others (specify)	<input type="checkbox"/>										

26	Do you provide additional amount to the borrower for completion of the project?	A B	Yes No	<input type="checkbox"/>
27	Do you provide additional time for the repayment of loan?	A B	Yes No	<input type="checkbox"/>
28	Do you provide any incentives for Prompt repayment?	A B	Yes No	<input type="checkbox"/>

29	Do you conduct credit monitoring?	A B	Yes No	<input type="checkbox"/>
30	Furnish details of the credit monitoring system			
31	Are you satisfied with the present system of financial assistance by the Corporation?	A B	Yes No	<input type="checkbox"/>

32. If not, what are your suggestions? Explain.

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APPENDIX III

SCHEMES OF ASSISTANCE OF THE KFC

1. The manufacture, preservation and processing of food.
2. Mining or development of mines.
3. The hotel industry and the tourism related activities including amusement parks, convention centres, commercial complex, restaurant, kalyanamandapam, auditorium etc.
4. The transport of passengers or goods by road or by water or by air or by ropeway or by lift.
5. The generation and / or distribution of electricity or any other form of power.
6. The maintenance, repair, testing or servicing of machinery of any description or vehicles or vessels or motor boats or trailers or tractors.
7. The setting up or development of industrial area or industrial estate.
8. Assembling, repairing or packing any article with the aid of machinery or power.
9. Fishing or providing storage facilities for fishery or maintenance thereof.
10. Providing special or technical knowledge or other services for the promotion of industrial growth.
11. The research and development of any process or product.
12. Hospitals, nursing homes and related services.
13. Providing weigh-bridge facilities.
14. Providing software services relating to information technology.
15. Development, maintenance and construction of roads.
16. Equipment leasing.
17. Acquisition of computers.
18. Acquisition of diesel generators.

19. Revival / rehabilitation of sericulture, pharmacy, warehouses, veterinary clinics etc.
20. Market research, advertising etc.
21. Upgrading SSI units to enable ISO 9002 certification.
22. Mobile catering projects.
23. Infrastructure project assistance scheme for marketing of SSI products.
24. Modernisation of SSIs which include technology development and modernisation fund scheme. Textiles and jute industries under technology upgradation fund (TUF) scheme and credit linked capital subsidy scheme for technology upgradation of SSI.
25. Civil contractors and TV serial production.
26. Loans to SC/ST entrepreneurs.
27. Handicapped entrepreneurs.
28. Defence personnel.
29. Women entrepreneurs.
30. Such other activity as may be approved by SIDBI.

APPENDIX IV

OTHER DEVELOPMENT INSTITUTIONS IN INDIA

Sl. No.	Institution	Set up in	Purpose
1.	Life Insurance Corporation of India - L.I.C.	1956	Facilitating the flow of contractual savings to the infrastructure sector
2.	Unit Trust of India - UTI	1964	Mobilising savings of small investors through sale of units and channelising them into corporate investments.
3.	General Insurance Corporation of India - GICI Subsidiaries: a. The National Insurance Ltd. b. The New India Assurance Co. Ltd c. The Oriental Insurance Co. Ltd & d. The United India Insurance Co. Ltd.	1973	Catering the requirements of the liberalized environment and Participating in financing and industrial projects along with AIFIs through term loans, short term loans and direct subscription to shares / debentures of new and industrial enterprises.
4.	National Bank for Agricultural and Rural Development (NABARD)	1982	Pursuing policies, intimating promotional programme, developing innovative credit products and extending refinance support with an objectives of securing prosperity in rural areas. Concentrates on promotion and development of agriculture, small scale industries, cottage and village industries, handicrafts and other rural crafts and other allied economic activities in rural areas.
5.	Export Import Bank of India-EXIM Bank	1982	Co-ordinating the working of institutions engaged in financing exports/imports. Other functions include financing, projects and service reports, building export competitiveness, import financing for exports, foreign trade guarantee programme, export and consultancy services.
6.	Technical Consultancy Organization. COs. [State level institutions established during the seventies and eighties. At present there are 17 TCOs operating in various states]		Catering to the consultancy needs of the small and medium industries and new enterprises with a view to making available the technical expertise and filling up the gaps in the process of industrialization.

7.	Commercial Banks There is a series of more than 300 scheduled commercial Banks (SCBs) in the country, comprising of SBI and its subsidiaries, nationalised banks, private sector banks and foreign banks. There are about 75000 branches of SCBs across India.		Serving as the nerves carrying finance to every sector whether business or non-business, public or private.
8.	Khadi & village Industries Commission KVIC	1956	Engaging in planning, promotion, organisation and implementation of programmes for the development of Khadi and other Village Industries in the rural areas in co-ordination with other agencies engaged in rural development.
9.	National Small Industries Co-operation (NSIC)	1955	Provision of variety of services to small scale industries through its schemes such as hire purchase, equipment leasing, marketing, export, raw material assistance, single point registration scheme, etc. It is also concerned with providing technical training in its Technical Service Centre.
10.	State Small Industries Development Corporation (SSIDC) [State-level institution]	1956	Promoting and developing small, tiny and village industries in the state / union territories under their jurisdiction.
11.	Infrastructure Development Finance Corporation Ltd. (IDFC)	1977	Facilitating private finance to commercially viable infrastructure projects and helping to mitigate commercial and structural risks contained therein by designing innovative products and processes.
12.	North - Eastern Development Finance Corporation Ltd. (NEDFC) [Area under jurisdiction: North, Eastern region comprising Assam, Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland and Tripura]	1995	Granting of project term loan, equipment finance, equity participation, North-East Equity fund (for small local entrepreneurs) merchant banking services, assistance in entrepreneur development and development of market for NE products and assistance in Techno-Economic Feasibility Studies for National and International Funding.

13.	Risk capital and Technology Finance Corporation Ltd. (RCTC) [A specialized financial institution]	1976	Supporting projects set up by first generation entrepreneurs involving relatively innovative technologies, products and services through technology finance and Venture capital schemes. Assisting in the form of conventional loans or interest free conditional loans on a profit and risk-sharing basis with the project promoters and subscriptions to equity of projects with suitable buy back arrangements with promoters.
14.	ICICI Venture Funds Management Co.Ltd. [A specialized financial institution]	1988	Provision of assistance to small and medium industries conceived by technocrat entrepreneurs in the form of project loans, direct subscription to equity instrument called conditional loan spread across sectors like Information Technology, health care, light engineering and services.
15.	Tourism Finance Corporation of India Ltd.(TFCI) [A specialized all-India financial institution]	1989	Provision of rupee loans, underwriting/ direct subscription to shares/debentures, guarantees for deferred payments, equipment leasing/equipment credit for setting up and / or development of tourism - related activities facilities and services which inter-alia include hotels, restaurants, holiday resorts, amusement parks and complexes for entertainment, education and sports, safari parks, rope ways, cultural centres, convention halls, all forms of transport industry, air taxis, travel and tour operating agencies, tourism emporia, sport facilities etc.

APPENDIX V

DEVELOPMENT FINANCING INSTITUTIONS ABROAD

Name of the Bank & the Country to which it belongs	Established in	Main functions
I. Advanced Countries		
United Kingdom		
Industrial and Commercial Finance corporation (ICFC)	1945	Providing financial assistance for development and expansion of small & medium enterprises.
Finance corporation for Industry (FCI)	1945	Providing long-term finance for big Industrial concerns
Commercial Development Corporation	1948	Providing financial assistance for economic development
Common wealth Development finance company (CDFC)	1953	Financing sound Industrial development in common wealth countries in commercial basis
United States		
Reconstruction Finance Corporation (RFC)	1932	To help growth of agriculture commerce and industry and to induce the small units to maintain economic stability and accelerate output and employment in the U.S.A. (This was dissolved in 1954)
Small Business Administration (S BA)	1954	Providing financial and development assistance to small units.
Development Credit Corporation (DCC)		Channelising small savings into the small enterprises.
Canada		
Industrial Development Bank (IDB)	1944	Providing financial assistance to small and medium scale Industries.
Australia		
Common wealth Development Bank of Australia (CDBA)	1959	Providing financial assistance for the development of small and medium scale industries
Development Refinance Corporation (DRC)	1967	Providing refinance facilities to trading banks
Japan		
The Industrial Bank of Japan (IBJ)	1951	Providing long-term finance to industry.
The long-term Credit Bank of Japan	1952	The long-term credit bank system was created to substitute the under developed capital marker in Japan

Germany		
The Krechitanstalt for Wiederefban (K. W)	1948	Taking care of the financial requirements of German credit institutions and of German capital aid to under development countries
(Reconstruction Loan corpn.) Industrial Credit Bank AG	1949	Providing medium and long-term finance to small and medium size enterprises in Germany
German Development Company (GDC)	1962	Providing financial assistance to private enterprises especially those which are floated run with German collaboration.
II. Developing Countries		
Burma		
The Industrial Development Corporation (IDC)	1952	Setting up and growth of industries
The Industrial Development bank (IDB) of Burma	1961	Promotion of private enterprises in Burma, mobilization of internal/external capital for private industrial development and stimulation of investment, share and security markets.
Sri Lanka		
The Agricultural and Industrial Credit Corporation (AICC)	1943	Providing term loans for the development of agricultural and industrial ventures.
Development Finance Corporation of Sri Lanka	1952	Assist the growth of private enterprise in Sri Lanka
Taiwan		
China Development Corporation	1959	Providing development in the form of term loans, equity, underwriting, guarantees, etc., to industries
Iran		
The Industrial and mining Development Bank of Iran (IMDBI)	1959	To accelerate the investment of local and foreign capital in industry, mining, transportation etc.
Iraq		
The Industrial Bank of Iraq (IBI)	1946	Providing loans, equity capital and development service to Industry.
Indonesia		
Bank Pambangunan Indonesis (Development Bank of Indonesis)	1960	To promote and finance such projects in Indonesis as would lead to overall economic growth. It provides finance for agriculture, industry and mining.

Korea		
The Korean Reconstruction Bank (KR B)	1954	Providing financial managerial and technical assistance to industry.
Loas		
Credit national Loas (CNL)	1956	To accelerate social and economic growth of Loas through the development of private public industries agriculture, crafts etc.
Malaysia		
Malaysian Industrial Development Finance Ltd. (MIDFL)	1960	To induce the growth of the Malaysian economy's private industrial sector through the provision of loans, underwriting facilities, guarantees, equity participation and development services.
Nepal		
The Nepal Industrial Development Bank (JDB)	1959	Providing financial assistance for the growth of Nepalese Industry.
Pakistan		
The Industrial Development Bank of Pakistan (IDBP)	1961	To cater to the credit requirements of medium and small Industries and creation of a class of enterprises.
Pakistan Industrial Credit and investment Corpn. Ltd (RICIC)	1957	To accelerate the growth of the industrial sector through the provision of financial assistance to the new and existing Industries in the private sector.
Pakistan Industrial Development Corporation (PICD)	1952	To ensure planned and proper growth of large and medium sized industrial enterprises.
Small industrial Corporation (SIC)	1955	To provide financial and development services to small industries in Pakistan
Philippines		
The Development bank of the Philippines (DB P)	1958	To provide financial and development services to enterprises in the public and private sectors. It assists agricultural, industrial, mining, public utilities and fisheries enterprises.

National Investment and Development Corporation (NIDC)	1963	To extend assistance to industrial agricultural and commercial projects.
Private Development corporation of the Philippines (PDCP) Development corporation (PDCP)	1963	To assist the growth of private Industry through Its financial and development service. It lays a significant role in the metamorphosis of Philippines economy.
Thailand		
The Industrial Finance corporation of Thailand (IFCT)	1959	To help the growth of private Industry in Thailand
Singapore		
Economic Development Board of Singapore (EDB)	1961	To assist the economic and industrial growth of Singapore through the financing management and setting up of Industries. EDB has played a major role in providing the Industrial infrastructure for industries and in the establishment of heavy industries. Light industries service section of EDB has been instrumental in the growth small industries in Singapore.
Vietnam		
Soviete Financier Pour le Development DeL. Industries An Vietnam (SOFIDIV)	1961	Providing long term finance to big and medium size private industries.
Ryukyu		
The Ryukyu Development Loan Corporation (RDCC)	1959	It is a loan corporation. It provides long term loans only to private sector covering industry, agriculture, fisheries housing, tourism, small industry etc. It also grants "disaster loans" on humanitarian grounds.
Ethiopia		
The development Bank of Ethiopia (DBE)	1951	Providing finance to industry and agriculture
Cyprus		
The Cyprus Development Corporation Ltd. (CDC)	1963	Development encouraging and stimulating productive enterprises in Cyprus particularly in the fields of manufacturing and industrial processing, mining and tourism.

Ghana		
The Nationality Investment Bank (NIB)	1963	Designed for the growth of Ghanaian industry, agriculture, commerce etc. It caters to the needs of both the sectors.
Nigeria		
The Nigerian Industrial Development Bank Ltd. (NIDB)	1959	Is an instrument for the growth of private sector Industry and mining in Nigeria. It provides financial and development services to the two sectors.
Uganda		
The Uganda Development Corpn. Ltd. (UDC)	1952	Providing financial and development assistance to industry, mining, agriculture, tourism, etc., except transport and power.
Mexico		
The National Fancierera of Mexico (NF)	1934	It has created and financed enterprises stimulated domestic and foreign capital regulated the stock marker and has acted as an agent of the government
Brazil		
The National Bank of Economic Development (BNDE) Slaughter houses, etc.	1952	Providing financial assistance including loans, under writing equity, participation to Industry agriculture, railway stations harfours, navigation.
Chile		
The Chilean Development corpn(CDC)	1939	It promotes industrial enterprises for explanation of natural resources, co ordinates industrial development with other sectors, viz agriculture and mining and stimulates Industrial Investment activities.
The Asian Development Bank (ADB)	1966	These are regional development banks catering to the needs of the region/block concerned
Europe Investment Bank (EIB)	1952	
African Development Bank	1966	
Inter America / Development Bank	1961	

NB 5968