

**A STUDY ON THE INFLUENCE OF KERALA FINANCIAL
CORPORATION IN THE INDUSTRIAL DEVELOPMENT
OF KERALA WITH SPECIAL REFERENCE TO
NORTHERN DISTRICTS**

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to the University of Calicut
for the award of the Degree of
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By

SIMON. T.C.

Under the guidance of

Dr. A. K. Sarada
Reader and Dean
Department of Commerce and Management Studies
University of Calicut

**DEPARTMENT OF COMMERCE AND MANAGEMENT STUDIES
UNIVERSITY OF CALICUT
KERALA**

SEPTEMBER 2006

DECLARATION

I hereby declare that the thesis entitled "**A study on the Influence of Kerala Financial Corporation in the Industrial development of Kerala with Special Reference to Northern Districts**" is a record of bonafide research work done by me and no part of the thesis has been presented for the award of any degree, diploma, fellowship or any other title or recognition, before.

Calicut University
September 2006



SIMON. T.C.



DEPARTMENT OF
COMMERCE AND MANAGEMENT STUDIES
UNIVERSITY OF CALICUT – 67 635

Grams: UNICAL
Fax: 0494-2400269
Phone: 0494-2400297
PBX : 363
Resi: 0494-2401472
Mob: 9447149472

Dr. A.K. SARADA
Reader and Dean

CERTIFICATE

This is to certify that the thesis entitled “**A study on the Influence of Kerala Financial Corporation in the Industrial development of Kerala with Special Reference to Northern Districts**” prepared by SIMON.T.C., for the award of the degree of the Doctor of Philosophy in Commerce of the University of Calicut is a bonafide research work carried out by him under my supervision and guidance. No part of the thesis has been presented for the award of any degree, diploma, fellowship or any other title or recognition, before.

He is permitted to submit the thesis to the University.

Calicut University
September 2006

A handwritten signature in black ink, appearing to read 'Sarada'.

Dr. A.K. SARADA
(Supervising Teacher)

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LIST OF ABBREVIATIONS

ADB	Asian Development Bank
ASIDE	Assistance to States for Developing Export infrastructure and Allied Activities
CMD	Centre for Managing Development
GDP	Gross Domestic Product
GIC	General Insurance Corporation
GR	Growth Rate
IBRD	International Bank for Reconstruction and Development
ICICI	Industrial Credit and Investment Corporation of India
IDA	International Development Association
IDBI	Industrial Development Bank of India
IFCI	Industrial Finance Corporation of India
IRBI	Industrial Reconstruction Bank of India
ISO	International Standards Organisation
KFC	Kerala Financial Corporation
KINFRA	Kerala Industrial Infrastructure Development Corporation
KSIDC	Kerala State Industries Development Corporation
LIC	Life Insurance Corporation of India
MRTP Act	Monopolies and Restrictive Trade Practices Act
NCAER	National Council of Applied Economic Research
NDP	Net Domestic Product
NPA	Non-Performing assets
SEZ	Special Economic Zone
SFC's	State Financial Corporations

SIDBI	Small Industries Development Bank of India
SIDCO	Small Industries Development Corporation
SIDO	Small Industries Development Organization
SME	Small and Medium Enterprises
SSI	Small Scale Industries
SSLC	Secondary School Leaving Certificate
UTI	Unit Trust of India

CHAPTER 1

INTRODUCTION

The Indian economy is globally acknowledged today as one in constant flux and one that gladly experiences the pangs of transformation, of course, along the positive lines. This has been possible due to the novel outlook of India towards industrialisation and its long-term effect in the growth of the economy. In this context the words of Jawaharlal Nehru, one of the architects of modern India, is considered apt. He says, "it is only when India has acquired the ability to design, fabricate and erect its own plants without foreign assistance that it will have become a truly advanced and industrialised country" (1981)¹. This opinion clearly reveals the great and inevitable role that the industrialisation has to play in the development of the economy of any nation.

Viswaswarayya (1987)², who initiated and aroused India's interest in industrialisation, wrote in his book *Planned Economy for India* that no country which aspires to be reasonably self-supporting can do without agriculture. At the same time, no nation in modern times has grown rich through agriculture alone. With the growth of civilisation and multiplication of human wants, the occupations associated with industry and manufacture having increased and are found to be more remunerative than agriculture; and industrialisation has come to be regarded as a necessity and more or less as synonymous with civilisation.

1.1 History of Industrial Development (world)

The modern economic development all over the world was initiated by the Industrial Revolution of the late 18th century, which was a culmination of the process of transition from agriculture, started in the previous century. The agricultural revolution was resulted from the pressure of an increasing population on the existing mode of production and resources. This led to the

changes in the agricultural technology, which in turn necessitated changes in the agrarian organisation and production relationships of the time, as a result of which more resources could be made available to give effect to the technological changes. This entire process evolved into the Industrial Revolution which started in Great Britain followed by America, Europe, Soviet Union and similar developments all over the world (1980)³.

The World Economic Crisis of the 1930's further accelerated the industrialisation process in a big way. Two of the main features of the crisis were particularly disadvantageous to the primary-producing countries; there was a drastic deterioration in their terms of trade, and at the same time, their main customers - the industrialised countries - set up a complex system of trade and currency restrictions. The result was that majority of the primary-producing countries found themselves in serious balance-of-payment difficulties, and many of them adopted a policy of promoting industrial development at home with tariff protection, in order to safeguard their industries (1963)⁴.

A third spurt in the industrialisation process can be traced back to the period after World War II. This resulted from the efforts taken by many countries to recover themselves from the war-torn states (1963)⁵.

1.2 History of Industrial Development (India)

The Indian industry invited a wide range of investigative research endeavor during the 54 years of development particularly after the initiation of the Five Year Plans. The very development of Indian industry and the concomitant problems pose serious questions for the researchers. While a picture of industrial development moving with leaps and bounds was observed up to the seventies, it was equally besieged with the phenomenon of stagnation in the latter half of the period. The big debate of liberalisation and the policy changes open a very fascinating vista for scholars of industry and industrial development.

In India, with its enormous labour resources, the vast and varied natural resources and the continental dimensions, the need for Industrialisation is so intense that development is thought to be synonymous with industrialisation. The crying need for sustained rise in the per capita income, higher elasticity of demand for manufacturers in the international trade, fast growth strategy, defence considerations, self-reliance issue, absorption of surplus labour etc. provide expansionary impulses to the industrialisation process so much so that the slogan of 'Industrialise or Perish' has virtually become the main plank of planning and policies after launching the Second Five Year Plan. This has consequently led to making ways and attempts at the industrialisation of the country during the planning era.

The conscious and deliberate attempt at industrialisation came into being in India with the broad based Industrial Policy Resolution of 1956 which defined the role of the State, and listed the development of core sector as the exclusive responsibility of the State. The Resolution assumed the private sector to play only a supplementary role in the infrastructural and other industries. The State concentrated on heavy and basic industries, leaving the consumer goods industries to the private sector (1981)⁶.

The modest industrialisation programme of the First plan was largely concerned with building basic services like power and irrigation so that industrialisation of the economy could be facilitated. The heavy industrial programme of the Second Plan focused on heavy industries in public sector. The actual investment in the public sector on organised industries was Rs. 870 crores and in the private sector Rs. 675 crores (1981)⁷.

The special feature of the Second Plan was the reliance on medium and small industries for the supply of consumer goods and cloth. About 60 industrial estates comprising of 1000 small factories, were set up during the Second Plan. The priorities set in the Plan resulted in a considerable growth of the manufacturing sector, particularly of basic and heavy industries and

small and medium enterprises in the field of industrial ancillaries. The industrial sector recorded an average 6.90 percent growth rate during the Plan period.

The focus of the Third Plan was to strengthen the industrial as well as power and transport sector and to bring about rapid changes in the industrial and technological fields. Of the total financial outlay of Rs. 3000 crores earmarked for investment in the industrial sector, Rs. 1700 crores was allocated to the public sector (1981)⁸. This shows the logical consistency of assigning a key role to the public sector in making the country self-reliant in the field of capital goods industry.

During the three Annual Plans of 1966-69, the plan priorities were shifted to defence, which resulted in lower index of industrial production (though it increased slightly by 0.20 percent in 1966-67, and by 0.50 percent in 1967-68). Following the devaluation of rupee, decontrol of steel, coal, paper and fertilisers, import liberalisation etc., industrial growth rate for 1968-69 was the highest at 6.20 percent (1981)⁹.

The Fourth Plan was more or less oriented towards the completion of those projects to which investment commitments had already been made. The plan also envisaged 23 percent of the total outlay for the industrial sector. The average actual growth rate was five percent as against the targeted eight percent. It was mainly due to the lower financial investment in public sector, infrastructural bottlenecks, lower output of steels, shortage of coal and power and set back to agro-based industries due to the drought conditions.

The Fifth Plan was aimed at the rapid development of coal sector and production of mass consumption goods. The Plan also emphasised the development of cottage and small industries. A significant amount of Rs.10, 200 crores was allocated to the industrial sector which constituted 26 percent of the total public sector outlay (1981)¹⁰. The actual growth rate

during the Plan stood at 5.30 percent as against the projected growth rate of 8.10 percent.

In order to ensure further growth of industries, during the Sixth Plan, industrial policy and dual pricing were modified. The MRTP Act was amended with a view to exempt certain industries of national importance. Moreover, investment subsidy and concessional finance schemes were introduced in the industrially backward areas. The Plan was meant for structural adjustments, diversification and modernisation, updating of technology, increase in productivity and self-reliance in respect of the industries of vital importance.

Emphasis of the Seventh Plan was on rapid industrial growth by improving the industrial productivity and the encouragement of industries having vast potential in the domestic as well as export markets. A target of eight percent annual industrial growth was stipulated in the Plan. The measures implemented during the period helped in the achievement of the Plan target.

The Eighth Plan was marked with a little diversification by emphasising on small-scale industries so as to remove regional disparities. A new thrust was given to the Industrial Policy in order to have closer links between the industrial planning, technology development and the export sectors. During the Plan period a compound annual growth rate of 7.30 percent was achieved.

The Ninth Plan proposed a target growth rate of 8.20 percent for the industrial sector (1997-02)¹¹. As against this, the actual growth rate was 4.50 percent. During the Plan period a compound annual growth rate of five percent in the industrial production was recorded as against the 7.30 percent during the Eighth Plan.

The Tenth Plan envisaged a comprehensive and coherent strategy of attaining industrial development. The deepening and widening of economic

reforms to create a positive investment climate conducive to a dominant private sector role including the setting up of a state-of-the-art infrastructure, capacity building in industry in order to make it internationally competitive, a level playing field with effective and transparent rules of fair play, augmentation of financial resources and efficiency-enhancing policy instruments were the important ingredients of such a strategy (2002-07)¹².

1.3 History of industrial development (Kerala)

With the British colonialism, the Kerala Economy developed a structure suited to the needs of colonial trade and did not develop the base for an advanced industrial sector. Industries of low productivity such as coir, cashew, tiles, etc, were given priority.

There were two phases of industrialisation in Kerala. The first phase was characterised by the pondering of small and cottage industries, which were dominated by agro-based units. The second phase started with certain policy initiatives of the Government of Travancore (2005)¹³.

Industrialisation in the modern sense is mainly a twentieth century phenomenon in Kerala. The State Governments has all along encouraged the progress of industrialisation. But in spite of these efforts, Kerala remains one of the industrially and economically backward States in India today due to the slow pace of industrial growth

Kerala has been facing an industrial slow down for the past few decades with industry facing a near stagnation. A number of studies conducted by eminent scholars and institutions are available to locate the causes of industrial backwardness of the State. The Techno-Economic Survey of Kerala conducted by NCAER in 1962 identifies the following factors for the slow growth of the State: (1) the predominance of technologically backward small-scale units with meagre re-investible surplus; (2) political instability of the State as a reason for the flight of industries; and

(3) the absence of raw materials (minerals), especially metallic minerals (2002)¹⁴.

Generally speaking, the structure of the manufacturing industry in Kerala continues to be made up of industries based on local raw materials and is dominated by traditional industries. Another important aspect of the industrial structure of Kerala is the inadequate development of modern engineering and high-tech industries. The low share of industrial sector in the total employment generation portrays the fragile scene of the manufacturing industries in Kerala (2003)¹⁵.

1.4 History of Industrial Development (North Kerala)

Though during the British period, the district of Kozhikode was endowed with some major industrial establishments set up by the Western Missionaries and the British estate owners, since the formation of Kerala State, the economy of Northern Kerala was comparatively lying behind. The trade relations of Malabar with the Western world had given momentum to the establishment of industries of primary products even before independence. The major industrial products of Malabar were coconut oil, sesame oil, coir and coir products, tiles, bricks, matches, metal vessels, clay products and soaps (1997)¹⁶.

The coastal region of North Kerala like Baypore, Ponnani, Parappanangadi and Koilandi were the centres of coir production while tiles were produced in Olavakkode, Ponnani and Feroke. Kozhikode and Kannur were the major spinning centres under the British rule, which could sustain their position even after the formation of the State.

In spite of this favourable position in the industrial history of Kerala, the Northern districts (Malabar area) could not maintain that tempo of industrial progress during the past few decades. Though the overall picture of Malabar was not so pathetic, individual analysis of the districts reveals that, with the exception of the district of Kozhikode, the industrial progress in

the region was very poor. This backwardness along with the sectoral bias and inter-regional disparities in development is the inspiration behind this study.

1.5 Influence of Finance on Industrial Development

Importance of Capital in the industrial development was felt worldwide during the World War I. As no war had done before, the four years of the World War I shattered the economic order of Europe and many other countries. Enormous economic wreckage had piled up during the war; factories, plant and equipment, the industries that had taken many years to build up, had most wantonly been destroyed. The factories had to be rebuilt, plant and machinery had to be replaced, old industries had to be rehabilitated and new ones had to be started. While a considerable amount of finance was required for this enormous task of reconstruction, most countries were faced with the shortage of industrial capital. The problem of providing adequate financial facilities for their industries assumed an importance, which had never felt before. This shows that the relationship between finance and development is universally accepted; finance influences growth and growth drives finance.

Industry is a man-made system. The entire industrial system consists of several sub-systems. The main system, namely, the industry, needs several types of inputs to integrate the whole structure of sub-systems and to put them on the line of creativity and production. Even before the stage of production, an industry needs adequate financial inputs. The adequacy of financial inputs is inevitable because it renders a great deal of help in procuring other essential inputs needed for the operation of an industry.

Industrial organisations need sufficient financial inputs, either owned or loaned in order to quench their thirst for short term, medium term and long term financial requirements. This is why finance or capital is deemed as the life blood of industry. The promotion, operation, proliferation, modernisation, rehabilitation and technology up-gradation of industry and the industrial

research are not at all feasible without strong financial support. Inadequacy of sufficient finance retards the whole process of industrialisation. Thus a chain of innovative and specialised financial institutions have been set up after independence in order to abridge the gap of term and non-term finance so as to nurture, strengthen and encourage the tempo of industrialisation in the country as envisaged by the Five Year Plans.

In India, the question of industrial finance began to receive prominent attention after independence. For some time past, a widespread feeling had been growing that; the development of Indian industries was helplessly inadequate. India had enormous wealth and a great variety of raw materials, but instead of utilising them, she was merely exporting them to enrich the economic development of other countries. India had a great industrial future and it was highly desirable that immediate steps be taken to ensure a rapid industrialisation of the country. One of the first requisites of industrial development, it was pointed out, was an adequate supply of financial facilities. The financial needs of Indian industry must be fully satisfied in order to achieve the desired goal of industrial progress.

The Government of India appointed a Banking Enquiry Committee in the year 1929. The examination of the entire banking system of the country came under its purview and one of its main objectives was stated to be an enquiry into the existing position of industrial finance in India and the part played by the Indian banks in its provision (2001)¹⁷. Under the Five Year Plans, India had taken to real time industrial development. To achieve this, apart from the modern technology and management, adequate capital and financial cover on easy terms became necessary. The importance of organising a sound and resilient network of institutional finance cannot be under emphasised. Without this, industrialisation would be slow and stunted.

From the mid 1950's, a long awaited specialised institutional structure for the floating and the dispersal of industrial finance came into being. The firmament of financial institutions comprises institutions both at the Central

and the State levels. The combined efforts of these financial agencies have successfully led the Indian economy towards industrial development. These financial institutions assume a pivotal role in the provision of long term credit, especially in the absence of a well developed long-term debt market.

1.6 Funding Agencies (world)

On the global scenario, the International Bank for Reconstruction and Development (World Bank) and the International Monetary Fund (IMF) are the reputed funding agencies.

After the Second World War, the need of the hour was the reconstruction of the war-shattered economies. From the deliberations, the outlines of two complimentary financial institutions had emerged. The first to take birth was the IMF. Its acclaimed aim was to promote international currency stability by helping the member countries in their financial dealings.

The World Bank is made up of two unique development institutions owned by 184 member countries, that is, the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA). Each institution plays a different but supportive role in its announced mission of global poverty reduction and the improvement of living standards. The IBRD focuses on middle income and creditworthy poor countries, while IDA focuses on the poorest countries in the world. The World Bank pursues these objectives through the lending, the production of researches and economic analysis and through the provision of economic advice and technical assistance.

On the Asian scenario, the Asian Development Bank (ADB) is performing a similar role, financing the developmental activities of eligible and needy nations in the region. As stated in its objectives, the activities of the Asian Development Bank are aimed at improving the welfare of the people in Asia and the Pacific.

1.7 Funding Agencies (India)

Functionally there are two types of specialised financial institutions in the Indian financial market, namely, developmental institutions and investment institutions. In the former category there are all India institutions such as the Industrial Finance Corporation of India (IFCI) Ltd, the Industrial Credit and Investment Corporation of India (ICICI) Ltd, the Industrial Development Bank of India (IDBI), the Industrial Reconstruction Bank of India (IRBI) and the Small Industries Development Bank of India (SIDBI), and State level institutions like the State Financial Corporations (SFCs) and the State Industrial Development Corporations (SIDCs).

In the category of investment institutions, there are all India agencies such as the Unit Trust of India (UTI), the Life Insurance Corporation of India (LIC) and the General Insurance Corporation (GIC).

The Industrial Finance Corporation of India was established in July 1948 under the IFC Act 1948, with the objective of making medium and long term credits more easily available to the industrial concerns in India, particularly in circumstances where the normal banking accommodation was inappropriate, or recourse to capital issue methods was impracticable. Immediately after its formation the Corporation became the chief instrument of the Government in providing long-term capital to the industries. In July 1993, this Corporation was converted into a limited company with the name Industrial Finance Corporation of India Ltd.

The Industrial Credit and Investment Corporation of India was established in January 1955 as a public limited company under the Indian Companies Act for developing medium and small industries in the private sector and to channelise the World Bank assistance to the private corporate units. However, following the merger of ICICI Ltd. and two of its subsidiaries with ICICI Bank Ltd., with effect from May 3, 2002, the Industrial Credit and Investment Corporation of India Ltd. ceased to exist.

The leader in the Indian capital market, namely, the Industrial Development Bank of India was established in July 1964 as a wholly owned subsidiary of the Reserve Bank of India. It was later transferred to the ownership of the Central Government in 1976. The main object of establishing IDBI was to set up an apex institution to co-ordinate the activities of other financial institutions and to act as a reservoir on which the other financial institutions could depend. It provides direct financial assistance to the industrial units also, to bridge the gap between the supply of and the demand for medium and long-term finance. IDBI also promotes and develops industries as per the plans and policies of the Government from time to time.

The Industrial Reconstruction Corporation of India was established in 1985 with the intention of reviving sick and closed industrial units and to act as a reconstruction agency. It was renamed as Industrial Investment Bank of India Ltd. from March 27, 1997.

The Small Industries Development Bank of India (SIDBI) was set up in 1990 with the main objective of operating as the principal financial institution for the promotion, financing and development of industries in the small-scale sector.

State Financial Corporations are the major developmental financial institutions functioning at the State level. They are formed for the purpose of catering to the financial needs of the small and medium industrial enterprises in the States.

1.8 Funding Agencies in Kerala

The Kerala Financial Corporation (KFC) was incorporated under the State Financial Corporations Act 1951 on 01.12.1953. The Corporation has jurisdiction over the Union Territory of Lakshadweep in addition to the State of Kerala. It has district offices in all the districts of the State. The main objective of the Corporation is to encourage, promote and aid the

Industrialisation of Kerala by providing long term loans to the small and the medium scale industrial units to start new industries and also to expand and diversify the existing ones. The maximum amount of loan that the Corporation can advance in the general case is Rs. three crores. The Corporation also finances the acquisition of trucks and buses, hotel industry, tourism activities, hospitals, etc. The Kerala Financial Corporation also provides need-based working capital assistance to the small and medium scale industrial units.

1.9 Statement of the Problem

The premier industrial financing institution in the State, namely, the Kerala Financial Corporation is facing a slowdown in its function. Over the years, the volume of financial assistance provided by the Corporation has been considerably declined. There is an aversion from the part of the prospective as well as the existing entrepreneurs to approach the Corporation for fulfilling their financial requirements. Moreover, the non-cordial 'loaner-loanee' relationship between the Corporation and its borrowers has made a negative image of the Corporation in the minds of its customers. This study is an enquiry into the causes of the slowdown in the functioning of the Corporation and the related issues and aims at providing the Corporation with information for improving its term lending function.

Balanced regional development in the matter of industrialisation is the base for the industrial development of an economy. Among the three regions of Kerala, the Northern part is lagging behind in industrial development when compared to its counter parts, that is, the Southern and the Central regions. In the case of financial assistance from the Kerala Financial Corporation also the Northern Kerala is lagging behind. Therefore this study specifically looks into the issues relating to the financial performance of the Corporation in the Northern Kerala.

It is a well-known fact that Kerala is not an industrial-friendly State in the eyes of the industrialists on account of many reasons. However, the

industrial scenario of Kerala is subject to major changes such as favourable Government policies, improving labour culture, favourable industrial infrastructure, etc., that may help rapid industrialisation in the State. In this context, the Kerala Financial Corporation, as the leading funding agency of industries in the State, shall play a more positive role in the industrial development of Kerala making use of the information provided by this study.

1.10 Significance of the Study

There were studies on industrial development, industrial financing and State Financial Corporations that studied in detail the various issues on a wider perspective. However, there were no similar studies that specifically looked into the role played by the most crucial role player in financing the industries of Kerala, the Kerala Financial Corporation, and its influence in the industrial development of Kerala.

Along with the liberalisation of the banking sector, commercial banks have started giving loans on more liberal terms even for longer periods. But their insistence on high collateral security coverage makes the entrepreneurs depend on the financial assistance of the Kerala Financial Corporation. The Corporation is still the leading long term financier in the industrial scenario of Kerala and no significant study has so far been made that analyse specifically the role of the Corporation in the industrial development of Northern Kerala. This highlights the significance of the present study.

1.11 Objectives of the Study

The main objectives of the study are:

1. To study the present status of the industrial units in North Kerala financed by the Kerala Financial Corporation.
2. To study the major problems faced by the units financed by the Kerala Financial Corporation in North Kerala

3. To study the opinion of entrepreneurs about the lending and the repayment processes of the Kerala Financial Corporation
4. To assess the contribution of the Kerala Financial Corporation to the industrial units being financed.

1.12 Hypotheses

Based on the above-mentioned objectives the following hypotheses have been formulated for the study.

1. The Kerala Financial Corporation does not have significant impact in the industrial development of Kerala.
2. The Kerala Financial Corporation does not have significant impact in the industrial development of Northern Kerala.
3. The Entrepreneurs being financed are not satisfied with the lending and the repayment processes of the Kerala Financial Corporation.

1.13 Period of the Study

The study on the influence of Kerala Financial Corporation in the industrial development of Kerala with special reference to Northern districts is made for a period of five years from 1999-00 to 2003-04.

1.14 Methodology

A detailed analysis was conducted on the industrial development of Kerala with special reference to Northern Kerala. The State Gross Domestic Product (GDP), the State Net Domestic Product (NDP), the Number of Registered Factories and the Volume of Industrial Employment provided during 1999-04 are the indices used for studying industrial development. GDP and NDP are taken at current prices and constant prices.

The financial performance of the Kerala Financial Corporation was reviewed through the annual reports of the Corporation. For an empirical

study of the financial performance of the Corporation, variables such as the number of loan applications received, the amount of loan applications, the number and the amount of loans sanctioned and the number and the amount of loans disbursed during 1999-04 period were used. The selected aspects were subjected to detailed analysis region-wise, industry-wise and amount-wise. Percentage shares and percentage growth rates, based on 1998-99 were used for statistical analysis. A comparison was attempted, by plotting them in line graphs, of the financial performance of the Kerala Financial Corporation with the indices of industrial development.

For studying the borrower's attitude towards the Kerala Financial Corporation, a sample of 120 industrial units financed by the Corporation were collected equally from three Northern districts of Kerala, namely, Kannur, Kozhikode and Malappuram. These districts were selected at random from the five Northern districts of Kerala. The sample industrial units were selected by the method of systematic sampling from the list provided by the Corporation. Data was collected through a structured interview schedule. The interview schedule included questions on the profile of the industrial unit, the profile of the entrepreneur, the financial aspects and the opinion of the entrepreneurs on various aspects in the functioning of the Corporation, which are related to the study.

Twenty variables were identified as influencing the satisfaction level of the entrepreneurs financed by the Kerala Financial Corporation. From the point of view of level of satisfaction, the borrowers were classified into two groups, namely, *satisfied* and *not satisfied*. Z test was applied to find out the difference of the two groups in the twenty variables. The Logistic Regression Analysis was conducted with the variables that exhibited difference. The Logistic Regression Analysis provides the combined effect of selected variables on the satisfaction level of the entrepreneurs in the financial assistance provided by the Kerala Financial Corporation.

1.15 Limitations of the Study

The study is never claimed to be a perfect one, as it may suffer from the following limitations;

1. The study is based on sampling, and therefore, all limitations of sampling theory are equally applicable to it as well.
2. Direct personal interview method is used for the collection of primary data. Due to personal bias and constraints, the respondents need not necessarily disclose full and complete information. However, cross-questioning has helped in maintaining this risk to the minimum.
3. Most of the information used is qualitative in nature such as satisfaction levels and hence all limitations of studies based on qualitative information are applicable to this study also.

1.16 Scheme of Reporting

The whole study is presented in six chapters.

The first chapter is the introduction which gives a brief outline of the study, such as, the importance of study, objectives, hypothesis, methodology used, etc.

The second chapter is devoted for presenting the literature reviewed for the purpose of this study.

An overview of the industrial development in Kerala is given in the third chapter. This chapter highlights the present state of the industrial development of Kerala, the contribution of the industrial sector to the State Gross Domestic Product, to the State Net Domestic Product and the regional differences in the industrial development of Kerala

The fourth chapter gives an overview of the Kerala Financial Corporation. It deals with in detail the present state of affairs of the Corporation, its schemes of financial assistance, the rates of growth in its

financial assistance, and the regional distribution of financial assistance by the Corporation.

The study of the role of Kerala Financial Corporation in the industrial development of Northern Kerala is made in the fifth chapter. This chapter also contains a detailed analysis of the satisfaction levels of the beneficiaries of the Kerala Financial Corporation on the basis of the information collected from the field study.

As a result of this study, several findings and revelations were reached at. A variety of suggestions were also arrived at for the redress of the persistent problems in the realm of industrial development of Kerala, and the role of Kerala Financial Corporation in the former. These findings and suggestions were summarised into the last and final chapter, without which the study becomes incomplete and wanting.

CHAPTER II

REVIEW OF LITERATURE

Large volume of literature is available on topics relating to the industrial development and the industrial finance. Some of them are world level studies covering many countries while some others are national level studies concentrating on majority of Indian States and still some others are studies relating to Kerala. Some are academic studies while some others are professional studies. All these studies can be broadly classified into three categories based on their content.

2.1 Studies Relating to Industrialisation

Bhatia, Hon. Governor of Kerala (2006)¹⁸ in his Policy Announcement Speech in the Kerala Legislative Assembly on 3rd Feb. 2006 explained the steps taken by the Government of Kerala for enhancing the productivity in the industrial sector of the State and the measures proposed to be taken by the Government to uplift the traditional industries of Coir and Handloom.

Tendulkar et al., (2006)¹⁹ in their book presents a set of papers on Indian Industrialisation in the context of market-enhancing and trade-liberalising reforms that have been taking place. It begins with tracing shifts in the Indian Industrial Policy since independence. The papers presented in five sections throw lights on the various facets of the remarkable transformation of the Indian economy with reference to industrialisation.

Jos Anthony (2006)²⁰ in his article observes that India has won world class recognition in information technology, biotechnology and space technology. The Indian Pharmaceutical Industry is grown at \$6.5 Billion and growing at 8 to 10 percent annually, are the fourth largest pharmaceutical Industries in the world. He also opines that India's new economic policy initiated by the then Finance Minister ManMohan Singh will take India to very good heights in the industrial development

Anandan and Ravi Sankar (2006)²¹ in their article, makes a comparative analysis of the performance of textile industries in India and China. The article looks into the existing framework within which the industry is operating and put forward suggestions as to how India can make use of the new opportunities in the textile field and win over the competition.

Madheswaran et al., (2005)²² in their study identifies the problems faced by the Beedi Industry in the State of Karnataka. They are of the opinion that the decreasing production, increasing cost of production, inter-state wage differentials, non-availability of raw materials, entry tax, mushroom growth of un registered companies, declining demand for Beedi, Impact of Ante-tobacco Legislation etc., are the causes of stagnation in Beedi Industry.

Agrawal and Sharma (2005)²³ in their study opines that every Government strives to bring about balanced regional development through industrialisation as it was realised that industrialisation alone, if done in a planned manner, can bring about balanced regional development. The study is done with special reference to the state of Maharashtra as it is the pioneer State in introducing package scheme of incentives for industries.

Jayakrishna (2005)²⁴ in his article emphasises the importance of new product development in the industrial development. He stresses that optimising operational efficiency, innovations in the performance, business agility and responsiveness in the changing complex business landscape are crucial for achieving business success and customer satisfaction in the present world. Therefore incorporating agility in product development infrastructure from factory floor to value-delivery network is the key to meet the changing market needs, shrinking product life cycles and associated challenges.

Biswas, et al., (2005)²⁵ makes a detailed analysis of the industrial development of Bhutan under its Five Year Plans. The study looks in to the diversification process that took place in the manufacturing sector of Bhutan

and its appreciable performance. As the economy is facing a recession, in the event of globalisation, the authors suggest that, the development of industrial sector in Bhutan including the manufacturing industries is highly essential for attaining self reliance.

Ravi Kiran (2005)²⁶ in his article recognises the role of industrial productivity in the industrialisation process. A comparison is being made between the two periods to see whether there has been an improvement in productivity during the period associated with liberalisation and globalisation compared to the post -1981 period,

Sahai (2005)²⁷, Minister of State for Food Processing Industries in his speech has emphasised the importance of food processing sector which account for products worth rupees one and half lakh crores during the year 2002-03. The food processing sector also employs 13 million persons and has the potential to create 2.4 times indirect employment. It is also expected that the increased availability of surplus, changing life styles, tastes and higher disposable incomes, would push the growth rate of food processing sector to the tune of 7.30 percent in the next 5 years.

Latha (2005)²⁸ in her article rightly emphasises the role of the Small-Scale Industrial Sector in the generation of employment and economic development of every economy. She is of the view that the small-scale sector is acting as the nursery of entrepreneurs in their industrial activities and it ensures balanced economic development.

Rajshri Jayaraman and Lanjaouw (2004)²⁹ analyses the extent of environmental pollution caused by the small scale industries in Brazil. Although employees of polluting small scale industries in Brazil are not disproportionately poor, simulations suggests that stringent environmental regulations resulting in wide spread closure of pollution-intensive small-scale industries would result in a non negligible increase in poverty among employees of these firms. The study suggests that the enthusiasm for small-

scale industries need to be tempered by awareness of the potential environmental costs imposed by this sector.

Joseph (2004)³⁰ is of the opinion that India is one of the countries which lag behind in industrial development, in spite of her long connection with the first industrialised nation in the world. Nevertheless certain States in India like Maharashtra, Gujarat and Tamil Nadu have made remarkable progress in industrialisation. In this book he studies the evolution of industrial activities in Kerala from the formative days to the current stage. At the same time, the study explores how the changes in various aspects of culture at different periods of time could mould industrial development.

Discussion paper of Center for Development Studies (2004)³¹, Thiruvananthapuram, relating to the entrepreneurship in informal sector, explains in detail the role played by the informal sector in promoting the industrial entrepreneurship in Kerala.

Rajasekharan Pillai (2004)³² in his article discusses the important role played by foreign trade in the economic development of Travancore during the period 1894-1947. The article conclude that from 1894 to 1947, despite the fact that exports were mainly agricultural goods and imports were mainly consumer goods, there was an impact of trade and trade surplus on the development of Travancore.

Indirakutty (2004)³³ in her study expresses the view that industrialisation is the key to the sustained growth and modernisation of an economy. But the factors such as negligible impact of industrialisation on the unemployment situation and the disappointing performance of public sector enterprises are disturbing facts.

Gokarn et al.,(2004)³⁴ conducted a detailed study on the development aspects of various industries starting from Tea industry to Banking industry.

Mittal (2003)³⁵ in his study on industrial entrepreneurship include 160 entrepreneurs of Panjab and Hariyana. The study brings about in detail the practical problems being faced by the entrepreneurs, factors which help them to be successful entrepreneurs, the growth performance, and development of their industrial units and also suggested various measures to overcome these problems. The book also look into the growth and development of entrepreneurship, economic profile and industrial development, socio-economic profile of entrepreneurs, growth of small-scale units and entrepreneurial performance, problems faced by the entrepreneurs, and the development of industrial entrepreneurship.

Mridul Eapen (2003)³⁶ points out that an area of major concern in the transformation process pertains to the declining fortunes of the traditional industrial production base and the instability of the State to develop and diversify its industrial sector. In recent years, however, there has been fairly rapid growth of non-factory, non-house hold, and modern small-scale manufacturing sector in the States, located largely in rural areas.

Sachdanda Patro (2002)³⁷ attempts a pioneering and comprehensive study to understand the problems, issues and prospects of industrialisation and industrial policy in India with special emphasis on Orissa. Performance appraisal of various financial institutions engaged in the development of industries has been detailed in the book.

The Statistical Institute, Government of Kerala (2002)³⁸ in its survey analyses women's industrial enterprises in Kerala and has given a detailed account of the success and failure rate of industries initiated by women in Kerala.

Kiran (2002)³⁹ suggests that considering the weaknesses of the State that limited it from emerging as an industrial destination in the old economy, it seems inevitable to have a new vision and strategy which could fully utilise Kerala's comparative advantage in human resources, and place greater

emphasis on developing knowledge-based and service industries, for accelerating income and employment generation in the State.

Padmini (2002)⁴⁰ in the research paper on industrial co-operatives points out that the performance of industrial co-operatives in Kerala adjudged in terms of their financial performance is continuously on the decline, though the intensity of the decline is less in the women's industrial co-operatives. She also suggests that research is required in the areas of diversification of production, trends in productivity and profitability and impact of the new economic policy, capacity utilisation etc.

Abegaz (2002)⁴¹ in the Journal of Development Studies uses cross-country panel data on three-digit manufacturing to test for progressive structural convergence in the industrial output mix between industrialising and industrialised economies.

The Policy Document on information technology (2001)⁴² briefly states the incentive schemes offered by the Government of Kerala for giving maximum boost to the Information Technology Industry in Kerala. The Government of Kerala recognises the potential of IT Industry in the transformation of the economy of the State in the Policy Document. The Government also realises the need to accelerate the growth of IT Industry by offering an incentive package that is simple to participate in, and that which rewards excellence in operations, marketing, human resources development, and process quality. The incentive scheme is operative with effect from 1st Dec. 2001 for the IT Companies that set up operations with in the State.

Harold L Vogel (2001)⁴³ examines the business economics of the major entertainment industrial enterprises such as movies, television and cable programming, music, broadcasting, wagering and gambling, publishing, performing arts, theme parks and toys, in United States of America. The book provides a comprehensive, up-to-date reference guide

on the economics, financing, production and marketing of entertainment in the United States and overseas.

Surendra Nath (2001)⁴⁴ evaluates in detail the economics, social, political and environmental impact of one of the biggest manufacturing concerns of Kerala, viz, 'Mavoor Gwalior Rayons'. The books illustrate how an industrial concern can ruin the entire ecologic system of an area with its polluting effluents. It also narrates the chain of agitations from the part of local people against the company in order to get protection against polluting Chaliyar River and its surroundings.

Ramesh (2001)⁴⁵ conducted a Research Study on Kancheepuram Silk Weaving Industry taking 166 Silk weavers as the sample. The study concludes that, since 1950s the industry had witnessed remarkable organisational changes, which had redefined the labour and the employment relations. The State Policy of Promotion of Co-operatives has further intensified the changes in the production, organisation and labour relations.

Lalaji (2001)⁴⁶ in his book evaluates the importance of Information Technology industry in the industrial development of Kerala and it also estimates the future of the industry in the State and the possible job opportunities that it can create in the economy.

Padmakumar's (2001)⁴⁷ project focuses on technological improvements, product up-gradations, demand generation and improvement in enterprise level management practices in the traditional industries.

Sindhu (2001)⁴⁸ in her study evaluates the impact of intervention by the Kerala State Bamboo Corporation on the Bamboo Industry of Kerala. It also studies the income levels of workers who are being employed in the industry, 80 percent of whom are women.

Beena Nayar and Sreekumar (2001)⁴⁹ in their research paper analyses the development experience of Kerala in detail. The paper analyses the major causes that restrain the prospects of development in the

State. In their view, encountering problems like stagnation in agricultural and industrial sectors, out-migration of industries, acute power problems, high unemployment rates and destabilising fiscal crisis are the major restraining forces.

Jacob Chandy (2001)⁵⁰ in his paper on Indian Cement Industry evaluates the new Economic Policy which was introduced in India with its three tents namely Liberalisation, Privatisation and Globalisation with the objective of bringing about a perfectly competitive structure in the Indian industry. He is of the opinion that before the new economic policy was initiated, the prevailing systems of license-raj created distortions in the economy.

Savitha Kanwar (2001)⁵¹ in the research paper on Handicrafts Industry, explains that, handicrafts provided employment to 71 lakh people in the year 1996-97 and the target of the Ninth plan is to provide employment to 82 lakh people. Handicrafts have great export potential and they help foreign exchange earnings.

Ramanjaneyulu (2001)⁵² has made a research on the impact of globalisation on the Indian industrial sector. The study expresses the view that in spite of the fact that India having one of the largest manufacturing sector in the third world, this sector is small in relation to the nation's rural population. While sixty five percent of labour force is in the agricultural sector, only thirteen percent is in the industrial sector.

SIBI Report on Small Scale Industries Sector (2000)⁵³ study in general the industrial scenario of India since 1990s. It observes that fifty years of development experience has yielded a number of important lessons for the Indian economy. With the graduation of the economy from the primary to the secondary stage of economic development, the industrial sector witnessed a better performance. The monetary policies in the financial year 1999-00 was aimed at maintaining a delicate balance between the conflicting objectives of controlling inflation through a tight monetary policy

and boosting industrial growth through lower interest rates and expansionary monetary policy. A comparison of the growth of the Indian economy with that of the other Asian economies shows that the country's average industrial growth rate during the nineties has been relatively better than that of many other countries.

Subramanian and Abdul Azeez (2000)⁵⁴ in their study tries to identify the developmental crisis in Kerala. The study states that a view is gaining ground that the accelerated growth of industry is one of the effective ways of resolving the crisis. This necessitates a change in the very concept of industrialisation to refer widely to growth acceleration, not only in conventional manufacturing industries but also service sectors.

Ram Mohan's (2000)⁵⁵ project look analyses the ways in which the coir industry in Kerala is working. The study identifies lack of technological improvements as the major cause of under development of coir industry in the State.

Louis Puttarman (2000)⁵⁶ analyses how the difference in the levels of development prior to the era of industrialisation explain some of the dramatic differences in the rates of economic growth across the developing countries in recent decades.

Mohmot (1999)⁵⁷ reminds us that Indian industry has been passing through a deceleration phase. The annual growth rate of the industrial sector declined from a whopping 13% only two years ago, to a merely 3% presently. This trend is visible not only in Indian economy but also in the economies of Far Eastern Economies. Therefore the author observes that a high degree of professional and academic courage is required while predicting that India will be the second largest incremental market in a few years.

Patrick Heller (1999)⁵⁸ in his study finds that after four years of planned development with a heavy emphasis on industrialisation and a

strong political commitment to social and economic upliftment of the poor, the vast majority of India's population still secures its livelihood in the unorganised sector.

Joseph (1999)⁵⁹ evaluates the role of the Software Industry in the economic development of Kerala. With abundant qualified manpower, the State can reap good opportunities by way of assigning due importance to the Software Industry

Agrawal (1999)⁶⁰ in his book illustrates how the various Five Year Plans have accelerated the industrial development in India in the post-independence period.

Anil Yadav (1999)⁶¹ establishes that the industrial sector plays an important role in shaping the future of an economy. Kaldor's hypothesis that "Industry as Engine of Growth" has been analysed by the author.

Verma (1999)⁶² provides necessary guidelines not only to those planning to set up an SSI unit or already running one, but to kick start a business enterprise too, to encourage educated youths to turn to entrepreneurial goals and take up activities towards self-employment. The book provides awareness on aspects such as global importance of small industries, choosing the form of ownership of an enterprise, formalities for setting up an industrial unit, how to assess the financial requirements and avail finance from different sources like banks, financial institutions etc.

Uma Nair (1999)⁶³ explores the ramifications of the film industry in Kerala, which is the most film conscious State in India. The study unravels the confused tangle of film industry in Kerala and analyses the process of production, distribution and exhibition and examines the crisis, which has overtaken the industry in recent years. It also advances a few proposals to save the industry from the crisis and offers a few options for the policy makers in the Government and the industry.

Mathew (1999)⁶⁴ describes and analyses the experience of small enterprise development at the regional level, with reference to South India especially to Kerala. The author suggests that the limited efficacy of policy and measures at the macro level is due at least partly to the failure of the policy makers and administrators to understand the ground realities at the regional, industry and enterprise levels. A 'bottom-up' approach is also suggested with the involvement of industry associations, local experts and small industry owners / managers in the formulation and implementation of policies and measures.

Government of Kerala (1998)⁶⁵ in its White Paper on public sector units under the Ministry of Industries came to the conclusion that, over and above inadequate management, almost all the public sector undertakings are failing because they excessively depend up on ineffective procedures and obsolete technologies.

Misra and Puri (1998)⁶⁶ in their book makes an elaborative study on the various aspects of industrial development and related issues like industrial policies followed by the Government of India during different periods of economic planning, the industrial sickness, the industrial development during periods of Five Year Plans, etc.

Kothari's Industrial Directory (1997)⁶⁷ provides a detailed analysis of the present scenario in the industrial sector of the country.

Vasanth Desai (1997)⁶⁸ strongly asserts that industrialisation contributes in a big way towards economic development. The ultimate objectives of economic development in the Indian context are, creating employment opportunities for the people, expanding international trade and raising the living standards of masses.

Samuel (1997)⁶⁹ in his Doctoral thesis makes an attempt to study the issues relating to the industrial activities of Northern Kerala. He finds that the

most significant feature of industrial development of Northern Kerala is the regional imbalances in the development.

Gorter (1996)⁷⁰ emphasises the role of the industrial estates in the industrial development of a region. He emphasises that the industrial estates enables accumulation of social capital by way of collecting small and medium scale industrialists at the same location.

Wren (1996)⁷¹ gives a detailed account of the role of industrial subsidies in the industrial progress of United Kingdom.

Government of India (1996)⁷² Expert Group on the Commercialisation of Infrastructure in India in its report emphasises the necessity of industrial infrastructure in the industrialisation efforts of an economy. The report recommends commercialisation of infrastructure projects to help industrialisation.

Ananda (1996)⁷³ in his Doctoral research makes an analytical study on the growth of the industrial sector in India in the context of the planning region.

Raghavan (1994)⁷⁴ makes an evaluative study of the role played by the public sector undertakings in the industrial and economic development of India. Over the last forty or more years, massive instruments were made in the public sector enterprises covering a wide range of activities including manufacturing, infrastructure and services. But the liberalisation policies have caused a massive scale of disinvestment and neglect of public sector enterprises.

Jaya Jaitley (1994)⁷⁵ is of the view that the handicrafts industries and craftsmen have had to suffer because the industrial policy makers are blindly following the industrial patterns of the developed nations. On examining the situation in the developed nations, one finds unemployment is widely prevalent and heavy investments being made for the benefit of only a few.

Deepa (1994)⁷⁶ in her M. Phil dissertation makes an evaluation of various aspects of crisis in the cashew processing industry and its effects on the women workers.

Prakash (1994)⁷⁷ makes an attempt to analyse the performance, problems and prospects of the industrial sector in Kerala. The study reveals that though adequate importance has been given to the development of the industrial sector, the progress has not been satisfactory.

Raj (1994)⁷⁸ opines that the unutilised manufacturing capacity is the major cause of lower productivity and in turn a serious problem in the industrial development of India.

Ratnakar (1993)⁷⁹ gives a detailed account of the industrial development of India through the planning programmes. It identifies that industrialisation is a key to the prosperity of individuals and the nation. Keeping this aspect in view, the book gives an overview of the Indian economy as well as the important industries such as steel, aluminum, automobile, etc. The salient features of the export possibility of SAARC countries, has also been dealt with in this book.

Patra (1993)⁸⁰ explains in detail the procedures and formalities to be followed in the establishment and also the management of a small scale industry in India. It deals with various aspects of industrial promotion such as development of entrepreneurship, facilities and incentives, financial management, management of personnel, material and production as well as marketing and distribution.

Chudnovsky (1993)⁸¹ observes that industrialisation involves the establishment of a modern, integrated and efficient manufacturing sector in countries that had previously specialised in the production of primary products for exports. Industrialisation is a process by which not only the manufacturing sector comes to account for a large share of the Gross Domestic Product and employment, but also the industrial structure itself is

transformed to include the production of goods and services requiring high technological capabilities and greater managerial competence.

Kamalakshi (1993)⁸², Mani (1990)⁸³ and Mary Joseph (1984)⁸⁴ in their Doctoral theses made studies on the economies of hotel industry in Kerala, the economics problems and prospects of tile industries in Kerala and the economies of chemical industry in Kerala respectively.

Gangadhar Rao et al., (1992)⁸⁵ observes that India is a fast developing country. In Nehruvian model of economic development, there is a prominent place for rapid industrialisation. The economic strategies and the vicious circle of poverty, which characterised the pre-independence Indian economy, are slowly but steadily giving place to flourishing economic activity and higher levels of income under the impact of systematic economic planning over the years. The book covers important topics like industrialisation and economic development, national income analysis, industrial development during the Five Year Plan period etc.

Kaveri (1992)⁸⁶ has made a detailed study on the success of the revival efforts of 15 sick industrial units. The book proves to be a good source for motivating banks, financial institutions and entrepreneurs in understanding the most difficult task, that is, the revival of sick industrial units. Information given in the book is quite educational to understand the concepts, procedures and practices relating to the rehabilitation of sick industrial units.

Ganesan (1992)⁸⁷ makes a detailed study on the performance of Indian publishing industry with special reference to publications in regional languages.

Uma Kapila (1992)⁸⁸ in her study examines in detail the influence of foreign trade in the industrial development of India. The study covers the scenario of the Indian industrial sector since independence up to the 1990s.

Baby (1992)⁸⁹ in his M. Phil dissertation, tries for an analytical study on the industrial development of Kerala during 1980s. The study reports that though the State possesses certain basic requirements of industrial growth, the same is yet to be picked up in a big way.

Rao and Nagaiya (1991)⁹⁰ makes an attempt to probe deep into the process of small-scale industrial development in India during the past four decades. The book traces the development process and various measures taken by the Government to support small industries, the high mortality rates, need to develop industries in backward areas, recent trends in the small-scale industrial sector, case studies etc.

Nagaiya (1991)⁹¹ focuses his study on industrial sickness. In his opinion when industrial units become sick and cannot operate, it is not only the entrepreneur who suffers but also the group of financial institutions including banks that have financed them.

Kannan (1991)⁹² in an article in *Economic Times* examines the economic situation of Kerala economy in spite of its advancement in social, educational and cultural areas. He points out that the industrial backwardness of the State is not due to the labour problem alone. Critical infrastructure such as transport, especially rail and water transport, energy etc. needs to be developed and strengthened and not much has been done in these sectors in recent years except to blame those who articulate peoples environmental issues.

The Task Force of Government of Kerala (1991)⁹³ in its report makes an appraisal of the contribution of the industrial sector and its value addition, and reviews the implementation of plans in the industrial sector.

Manoharan Nair (1990)⁹⁴ in his Doctoral research on the topic *Problems and Prospects of Plantation Industries in Kerala*, study in detail the present state of plantation industries and their problems in production, marketing, management, trade union aspects etc. The study concentrates on

plantation products of rubber, cardamom, coffee and tea. The study was made by taking three districts of Wayanad, Idukki and Kottayam as sample districts.

Alice Albin (1990)⁹⁵ in an article tries to analyse various aspects of the manufacturing sector in Kerala. It examines the role of the structural and the regional factors in explaining Kerala's industrial growth experience and concludes that, regional factors are so strong as to over power the effects of the structural factors and make Kerala's growth rate less than that of all India.

The Screening Committee of Government of Kerala (1990)⁹⁶ reports on the factors inhibiting the industrialisation and suggest measures for the speedy industrialisation of the State.

Jagdanand Jha (1990)⁹⁷ elaborates the inevitable role of Khadi and Village Industries in the economic development of India.

Tyabji (1989)⁹⁸ analyses the small industries policy which is considered as a historical product of the nationalist movement, specially based on the major ideological constituent Gandhism. The author argues that, Nehruvian socialism was the culmination of the process of reconciling middle-class radicalism with the economic and political requirements of the large industrialists whose views dominated the State policy.

Nirmal Padmanabhan (1989)⁹⁹ in her study shows that corporate industrial activity in Kerala was concentrated in four industrial groups, namely metal and metal products, chemical and chemical products, rubber and rubber products and textiles.

Nandamohan (1989)¹⁰⁰ in his Doctoral thesis emphasises the importance of capacity utilisation in the developmental efforts of the industrial concerns. The study concentrated on the capacity utilisation of the manufacturing industries of Kerala.

Subramanian and Joseph (1988)¹⁰¹ examine the growth of electronics industry during the period 1978-79 to 1983-84 within the frame work of the State sponsored promotional institution Kerala Electronics Corporation

Shahjahan (1987)¹⁰² Sebastian Mathew (1986)¹⁰³ and Valsala John (1977)¹⁰⁴ have discussed the growth, changing structure and trends in the performance of marine products exporting industry in Kerala.

Ozawa (1987)¹⁰⁵ attempt an analysis of the planned economic development in India under the Five Year Plans. Until independence, India had to import every manufactured item, and the programmes under the Five Year Plans emphasised import substitution and the transformation of importers in to manufacturers.

Mridul Eapen (1987)¹⁰⁶, underlines the dismal performance of the handloom co-operatives. While examining the functional performance of the HANTEX, the study argues that the society had not only a poor financial track record, despite active funding by the Government but also failed to discharge its primary function of assisting primary weaver's co-operatives satisfactorily.

Vijay Seth (1987),¹⁰⁷ in his book highlights the problems of industrialisation in India. He views that most of the approaches with regard to economic development, which in the modern context means industrialisation, assume that, under developed countries were at a low level equilibrium trap, when they came in contact with the West.

Rajan (1987)¹⁰⁸ attempts an elaborative study regarding the industrial performance of Kerala and gives a vivid picture of Kerala industries from its very origin onwards.

Rajan (1987),¹⁰⁹ in his study attempts to identify the existing environment for the industrial progress of Kerala. He point out that the industries, which were started in the Malabar area, were based on raw materials available locally.

Raghavan (1986)¹¹⁰ in his study tries to evaluate the organisation of production and marketing in the Beedi making industry in Kannur District. The study points out that in spite of the organisation of the industry in the co-operative sector, the performance of the industry showed deteriorating trends.

Rajagopalan (1986)¹¹¹ went in to the details of the existing production and marketing structure of handloom industry both in the North and the South Kerala in his study.

Sadhak (1986)¹¹² observes that India is a late starter in the industrial development and has witnessed a limited success. But the limited industrial growth is not spatially distributed in India; rather it has been concentrated in few States and in few centers. The rest of the country is industrially backward. The Indian problem is therefore not only the slow growth of the industrial sector but also the inter-state and intra-state disparities in development, particularly in the industrial area.

Sudarshan Lal (1985)¹¹³ in his study explores how to prevent industrial sickness and gives a detailed account of the measures that can be taken to prevent and / or to reduce industrial sickness. It also analyses the opportunities for rehabilitation of the sick industrial units.

Sankaranarayanan and Karunakaran (1985)¹¹⁴ points out the reasons for the industrial backwardness of Kerala and analyses the present state of affairs of large and medium industries and traditional small-scale industries and made suggestions for their improvement.

Government of Kerala (1984),¹¹⁵ the Department of Economics and Statistics conducted a study on women's industrial sector in Kerala which analyse the mounting unemployment in our State and the existing great potential for industrial development. It suggests that effective steps have to be taken immediately to identify and solve the problems existing in the

women's industrial sector in the State since it is the only way to provide employment to the educated women in the State.

Issac and Tharakan (1984)¹¹⁶ in their working paper attempts to explain in detail the causes of industrial backwardness in the Travancore region.

Gupta (1983)¹¹⁷ reveals that measures taken to develop new industries in rural areas particularly based on local resources have not yielded significant results; credit facilities have remained comparatively inadequate in the semi-urban areas, and the infrastructure in the backward districts is still too poor to attract new industries.

Jay Narayan Vyas (1982)¹¹⁸ is of the opinion that in order to have industrial development, availability of financial resources is the most important factor. Therefore an acute need was felt for specialised financial institutions that can provide long term finance in the post-independence era.

Richard Thomas (1982)¹¹⁹ predicts India's emergence as an industrial power in the near future. According to him Indian industry will flourish through the planned system of industrialisation.

James Riggs (1979)¹²⁰ in his study observes that capital expenditure spent for new plant and equipments is an indication of the industrial health of a nation.

United Nations (1975)¹²¹ has conducted a study on Kerala economy with the participation of Department of Economics and Social Affairs. The study reveals one peculiarity of industrialisation of Kerala as that there is not much progress beyond the processing of agricultural and other primary products based on traditional and labour intensive techniques.

Krishna Aiyer (1975)¹²² recognises the period 1935-47 as the golden age of industrialisation in the annals of Kerala's history.

Chaudhuri (1970)¹²³ opines that pursued with care and caution a sound industrial policy could mean a new lease of life to the teeming millions in India, creating opportunities for regular employment and making provisions for a better standard of living.

NCAER (1969)¹²⁴ in its survey made the following observation: In a State like Kerala, where raw materials for industries have to flow mainly from agricultural sector and from the forest produce, because of comparative deficiency in mineral resources, it is obvious that there cannot be very spectacular development in the industrial growth nor can there be any great diversification of industries unless deliberate steps are taken to foster the growth of non-resource based industries.

John Thomas Chirayath (1969),¹²⁵ in his report in "The Industry study series" attempts to make an in depth study on the problems and prospects of tile industry in Kerala.

Patten Shetti (1968)¹²⁶ gives a brief account of the rationale and policy of industrialisation in India, and the programme and progress of industrialisation in the three Plans.

George Rosen (1959)¹²⁷ gives an account of various factors that are influencing the industrial development of India. He goes into the details relating to the changes that has taken place in the industrial sector of Indian economy.

United Nations (1955)¹²⁸ makes an elaborative study on the nature of industrialisation process, the obstacles to industrialisation, measures conducive to industrialisation etc. in the under-developed countries.

2.2 Studies relating to Industrial Finance

Kamath (2006)¹²⁹, The Chief Executive Officer of 'ICICI Bank' in an interview with 'The Financial Express' discloses that, the corporate sector clearly see the corporate credit as the next growth horizon. He views that the

Indian Banking Industry is at the crossroads. Rising interest rates, liquidity concern and a series of regulatory interventions by the Reserve Bank of India to rein in an over heated economy has put the industry in quandary. He sees that the coming years will witness an increasing role for the corporate finance in the industrial scenario.

Priya Basu (2005)¹³⁰ observes that the financial reforms in India have helped improve financial sector soundness and depth, and led to an impressive growth in financial resources. At the same time with increased liberalisation and as risks become more difficult to monitor and manage, maintaining financial stability will become ever more challenging. The various papers presented in the book assess progress with the financial sector reforms over the past decades or so, and analyse the new challenges that confront India's policy makers and financial regulators. The book also highlight a formidable reform agenda, pointing to the need for a progressive reduction in the fiscal deficits, dealing with the country's public sector banks and financial institutions, introducing more effective legal, regulatory, supervisory and risk management systems, further developing capital markets and so on.

Srabani Guha (2005)¹³¹ in his paper develops a port folio-balance model, to show that a currency crisis following capital flight can occur in an open economy without any dramatic shift in the under lying fundamentals. The crisis is of liquidity brought about by sudden withdrawals of foreign capital from the financial market. Once a crisis hits, the traditional IMF policy of austerity may not work and may in fact worsen the crisis. It is also possible that an economy at the border of equilibrium may be thrown in to disequilibrium, if any of the restrictive policies are pursued.

Mahakud and Bhole (2005)¹³² in their study analyses the trends in commercial bank financing of public limited companies, private limited companies and foreign companies in India during the period 1966-2002 by using data of five hundred companies in India. It has been found that the

dependence on bank borrowing is high in the case of private limited companies than public limited companies and foreign companies in India.

Subramanyam and Prathab (2005)¹³³ in their book provide an excellent reading on investment banking, providing a clear cut differentiation between capital market and investment banks. The book has also made a focus on anatomy of various investment banks in India.

Udayan Kumar Babu (2005)¹³⁴ in his article makes an elaborative study on the interest rates, accumulating non performing assets and the fragility of Indian banking sector. The article underlines that the continued good health and sustained viability of banks alone can contribute towards the economic development of any nation.

Rashid Pansane (2005)¹³⁵ view that the small-scale industry is given a priority status in the matter of bank financing. Experience, however, shows that in a significant number of cases, bank branches have departed from the guidelines subjecting SSI units to unwanted delay and exposing them to the danger of losing viability.

Rohit Sarkar (2004)¹³⁶ in his article on the financial sector: 'Vision 2020', observe that a financial system, which is inherently strong, functionally diverse and displays efficiency and flexibility is crucial to the national objectives of creating a market-driven, productive and competitive economy. The book explains in detail the reforms taking place in the financial sector of India and also put forward suggestions as to which direction such reforms should move.

Agarwal and Aman Agarwal (2004)¹³⁷ in their article observe that finance is often cited as the main containing factor for developing different sectors of the economy. It emerged as one of the most vital component for growth and development. It is one of the scarce resources, which has been the greatest facilitating factor in the growth and development of an economy,

firm, corporate and even an individual and the emergence of finance as a discipline is a strong conviction.

Agarwal and Aman Agarwal (2004)¹³⁸ make a study on the financial systems and markets which play a critical role in promoting industrialisation in the economic development of a country by facilitating mobilisation of capital for large investment. They are of the view that, for strong financial systems, one requires supporting financial institutions and well developed financial market so as to reduce the cost of borrowing, lending and facilitating financial transactions.

Bhole (2004)¹³⁹ is convinced that the financial sector in India has developed tremendously since the beginning of the economic planning. It high-lights the growth of the financial system in respect of its size changes in the organisational structure, and the occurrence of diversification and innovation in the financial instruments and practices. The author has covered a wide area which includes the nature and role of financial system.

George (2004)¹⁴⁰ in his article in 'The Hindu daily' describes that the non-banking finance companies in India - a category of financial intermediaries - have been acknowledged as an integral part of the financial spectrum that provide competitive efficiency, depth and resilience to the finance system.

Chaturvedi and Bagga (2003)¹⁴¹ makes an exhaustive, analytical, thoroughly revised, amended and updated commentary on the State Financial Corporations Act 1951 as amended by the State Financial Corporations (Amendment) Act 2000 with thorough analysis of judicial pronouncements of various High Courts and Supreme Court along with useful appendices.

Chanchal Chopra (2003)¹⁴² observe that capital flows have emerged to be a vital component for the financial development in an economy. The trend of foreign investment in the pre and post liberalisation periods has had

positive contribution to the economic growth in India. The book also opines that foreign investment have become a prime constituent in the policy framework for developing countries.

Gordan and Natarajan (2003)¹⁴³ are of the view that a financial system which is inherently strong, functionally diverse and displays efficiency and flexibility is critical to our national objectives of creating a market driven productive and competitive economy. They also observe that the financial system instability, distress of financial institutions and disturbances in financial markets severely threaten the health of an economy. The book also discusses the futures of the development banks and other financial institutions. The authors emphasise the importance of interest rate in the financial system and how they mainly depend upon the Central bank's policy.

Shalini Talwar (2003)¹⁴⁴, in her article analyse briefly, both the positive and the negative aspects of Indian banking sector, after the nationalisation of banks in the year 1969.

Narhari Das (2002)¹⁴⁵ has pointed out the importance of capital in the economic development. He says that the deficiency of capital is both a cause and an effect of low productivity in the under developed countries. It is a connecting link between the low level of production and the economic poverty. Low productivity levels cause shortage of capital, which in turn acts as a brake on the increase in production. One reacts on the other and creates a vicious circle of poverty in every economy.

Srivastava and Nigam (2001)¹⁴⁶ presents an explanatory account of the working of Indian financial institutions including the commercial banks, development banks and investment banks. It analyses the role of the development banks and their promotional role in India. It also suggests that the financial institutions in India have to re-define their vision and mission, re-set their objectives to employ new financial instruments.

Teunissen (2000)¹⁴⁷ makes a detailed study on the effects of globalisation and liberalisation on the global financial markets. He observe that the crisis due to the reverse capital flows causing distinctions among countries that cripple the growth and development of an economy is a fear and truth, which every developing economy today faces. The book also explains that the capital flows are a cause of concern for all developing nations that are either opening up or have opened their economies.

Sharma (2000)¹⁴⁸ in his book study the role of the financial institutions in the economic growth. He suggests that only a balanced economic development by giving due importance to all the sectors of economy can provide a better future for a country.

Singh and Singh (1999)¹⁴⁹ observes that there will be economic growth when banks and financial institutions of a country are strong to take care of the growing needs of industry. The nationalisation of banks in 1969 was a good move in the history of banking. As the present money market is observing a boom with the emergence of several new and innovative instruments like commercial papers, deep discount bonds, zero rate bonds, fully convertible debentures, partly convertible debentures etc. the banking sector should be ready to face new challenges in their operations.

Nanda (1999)¹⁵⁰ in his book provides a critique of the prevailing banking system, pointing out its short comings and also identifying the real constraints that come in the way of small industry borrowers. At the same time he provides practical and relevant information, which the entrepreneurs should know regarding the banking tools and services. In conclusion the author provides useful tips for overcoming the constraints in borrowing from banks.

Gopal Lal Jain (1999)¹⁵¹ is of the opinion that the major requirement for development is the accumulation of real capital. This involves three inter dependent activities: (1) an increase in the volume of real savings so that resources that would have been used for consumption purposes can be

released for other purposes (2) a finance and credit mechanism, so that the resources may be claimed by investors and (3) the act of investment itself.

Bhattacharya (1998)¹⁵² studies various aspects of liberalisation of the financial sector. He expresses the view that the financial sector demands a new technology of lending to cope with the rising pressure on the profitability of banks and financial sector institutions. The book emphasise that lending is no longer an activity restricted to the assets side of the balance sheet. It must emanate from and fit snugly in to the overall corporate objective of a lending organisation and in the process; it must go beyond the balance sheet and integrate the expanding range of activities into the mainstream lending activities.

Machiraju (1998)¹⁵³ observes that the Indian financial system has witnessed momentous changes during the past few years from a controlled and highly regulated system to a market driven. Such a transition has been made possible due to the policies of liberalisation and reforms in the financial sector. The book also studies in detail the concepts of investment banking and development banking and also analyse the emergence of new non-banking financial institutions.

Varshny and Mittal (1998)¹⁵⁴ observe that the Indian financial system is undergoing significant changes, improvements and reforms. These changes and reforms have been positive in its contribution towards the economic development of the country. The book covers the Indian financial system extensively.

Rangarajan (1998)¹⁵⁵, analyse among other things, the relationship between the banking sector reforms and the economic development.

Gokak (1998)¹⁵⁶ emphasises the role of dynamic leadership that the financial institutions can play in reducing the industrial sickness in the Indian industrial sector.

Pandey (1996)¹⁵⁷ in his book stresses the importance of venture capital in the industrialisation process of an economy. In any scheme of planned economy, which is envisaged for a country, finance is like the heart in the human body, plays a life sustaining role. Finance is the lubricant of the process of economic growth and a vital element for any economic activity. The book suggests that if there are schemes for providing venture capital assistance, more and more entrepreneurs can be attracted to the industrial sector.

Tomar and Jai Prakash (1996)¹⁵⁸ stresses the specific and very important role played by the Regional Rural Banks in the upliftment of rural industries and in effect the economic development.

Bhole (1995)¹⁵⁹ in his book incorporate all the major changes and developments that have taken place in the Indian financial sector since 1982. It describes in detail the working of various financial institutions and markets in India.

Mohanan Pillai (1994)¹⁶⁰ in his study tries to reveal that the poor financial management and obsolete and stagnant technology were the two important problems faced by the State sector enterprises.

Uma Kapila (1994)¹⁶¹ observes that the financial sector reforms should help the banks and the financial institutions to act as autonomous business units, fully responsible for their performance. They will have to become efficiency conscious, focusing on balancing profitability with liquidity and serving the necessary socio-economic objectives of our development efforts.

Lekha Nair (1993)¹⁶² view that industrialisation emanated as an important path to economic development. Availability of capital, entrepreneurship quality, techniques of production, managerial and technical talent etc., decides the successful function of the industrialisation programmes. Commercial banks provide only working capital requirements

of trade and industry. So development banks with growth oriented function and promotional dimensions were created.

Gupta (1993)¹⁶³ evaluate and assess the efficiency and efficacy in the performance of the development banks. The priorities fixed by development banks in the matters of financial procedures, policies and operations and financial assistance is investigated in the book. It also study the promotional role played by the development banks. It evaluates the extent and causes of sickness of units financed by these institutions and steps taken for their revival. It also identifies the shortcomings and adequacies in the working of these financial institutions inhibiting them in performing their role.

Thomas Koshy (1992)¹⁶⁴ in his study on financial institutions observes that they play an important role in the industrial development of the nation. Over the years, the financial institutions have emerged as crucial growth catalysts by providing substantial amount of finance to support industry. The most significant development in the field of industrial finance after independence has been the growth of a network of specialised and developmental institutions.

Viswanathan (1992)¹⁶⁵ deals exhaustively with all facets of industrial finance – short term and medium term – as practiced by commercial banks. He discusses both the theoretical and the practical aspects of bank lending to large and medium industries such as fund flow and cash flow analysis, interpretation of financial statements, assessment of working capital, credit monitoring arrangement, project finance etc.

Subhash Bansal (1992)¹⁶⁶ analyses the state of health of the small scale industries based upon the balance sheet and profit and loss account of small-scale units. It throws light on the financial problems and the industrial sickness in small-scale industry. The book suggests that the ratios such as net worth to fixed assets ratio, net sales to inventory, net sales to gross working capital and net sales to total assets will help measure the health of an industrial unit.

Panda and Dash (1991)¹⁶⁷ are of the opinion that finance is the life-blood of industry, without which the wheels of modern industries cannot be greased. The book makes an attempt to evaluate the importance of institutional financing and the performance of industrial financing institutions in providing financial assistance to small and medium scale industrial units. A critical review of the role of the Orissa State Financial Corporation in the industrial development of Orissa is also made in the book.

Reddy (1990)¹⁶⁸, studies in detail various aspects of financing small-scale industries in India. It look into the areas such as the role of village industries in the integrated rural development, institutional finance for small-scale sector, problems of financing industries, role of commercial banks in the industrial finance, financing small-scale industry and the balanced regional development and some case studies.

Sharma (1989)¹⁶⁹ recognises the contributions of development banks in boosting up the morale of Indian industrial economy. At the same time it also discloses some of their weaknesses. So far as the volume is concerned their performance is more or less satisfactory but the practice reveals deviations from the basic objectives of development.

Durning (1989)¹⁷⁰ appreciated and praised the Kerala model of development on the basis of the high level of human development index.

Sarkar (1988)¹⁷¹ studies the private corporate sector in India, with particular emphasis on the sources from which this sector receives its finance. The author is of the view that although the private corporate sector still depends very largely on the commercial banks, its share of total bank finance has been dwindling since the nationalisation of major commercial banks.

Small Industries Development Bank of India (1988)¹⁷² in its study of performance of SIDBI assisted units, states that the ensuing reforms in the banking and the financial sectors followed by capital market reforms are

aimed at channelising adequate institutional finance into industry with the formulation of new financial instruments and lifting of entry barriers for private sector enterprises.

Poonia (1987)¹⁷³ has made an attempt to analyse the objectives and judge the operational efficiency of the Industrial Finance Corporation of India. An effort has been made in this book by incorporating some guidelines for policy formulations to protect the interest of the industrialists.

Khandwala (1987)¹⁷⁴ is of the opinion that the financial institutions should assume a leading role in the prevention of industrial sickness by periodical inspection of the assisted units, designation of desk officers within the financial institutions to monitor group of clients, industry cells in the financial institutions that specialise in keeping abreast of developments in specific industries, market intelligence cells that keep in touch with informative contacts for marketing information on clients, independent assessment of sales and profit projection etc.

Shankar Singh (1985)¹⁷⁵ analyses both the quantitative and qualitative content of the financial assistance of the Industrial Development Bank of India (IDBI) and addresses itself to questions such as whether the IDBI's finance has been in accordance with the objective of balanced regional distribution of industries, what is the role played by the bank for promoting industries in backward areas, how far the priorities fixed by plans and policies of the Government has been observed in its financial schemes etc.

Venugopal Reddy (1985)¹⁷⁶ provides an analysis of the operations of the World Bank group with special reference to the borrower's perspectives. Describing the World Bank as a co-operative institution the author adds "it consists of unequal partners". According to him even with the best of intentions the World Bank cannot but respect the ideologies and interests of the richer member countries.

Bidani (1984)¹⁷⁷ in his book covers systematically and in a lucid style all aspects of bank finance for industry: types of credit facilities available from banks, preparation and appraisal of projects, sanction of term loans and working capital loans, documentation, monitoring and follow up, and financing small and export oriented industries. It also covers credit guarantee, consortium financing, and recovery of loans and recommendation of Tandon and Chore committees.

Moffitt (1984)¹⁷⁸ in his book elaborately explains the history behind the birth of the Brettonwood twins, namely the World Bank and the International Monetary Fund and their role in financing world economy.

“Industrial Finance – In Blinkers” (1974)¹⁷⁹, article in Economic and Political weekly, made an analytical study of the policies of long term financing by term-lending institutions. The article criticises the policy of priority fixation by licensing authorities and financing every project for which assistance is sought. That is why a major portion of loans were given to breweries and luxury hotels.

Gupta (1969)¹⁸⁰ makes an evaluative study as to the factors that prompted the Government of India to establish State owned industrial finance institutions. The government was convinced that in the absence of such specialised financial agencies the targeted industrial growth in a country could not be achieved.

Mountjoy (1963)¹⁸¹ identifies the problems of capital formation, problems of capital attraction, unbalanced market growth and lack of government planning as the problems of industrialisation of under development countries.

2.3 Other Related Studies

The Indian Institute of Public opinion (2006),¹⁸² in its article ranks China as the first and India as the second destination among the top ten Foreign Direct Investment (FDI) destination countries in the world. However

statistics shows that out of the total FDI in the world in the year 2004 (Rs. 648146 Million dollars) India could attract only Rs. 5335 million dollars while China attracted Rs. 60630 million dollars.

Parameswaran Pillai (2005)¹⁸³ look in to the historical back ground of the establishment of a network of coffee houses in India, by All India Coffee Workers Co-operative Societies Federation. The book recognises the role played by the veteran social worker A.K. Gopalan in the formation of the Indian Coffee House. It also analyses the long series of agitations by the employees against the Coffee Board and Coffee Houses seeking protection from their exploitations.

Sugan Jain (2005)¹⁸⁴ suggests that sound financial management practices followed by corporate firms are the backbone of its profitability, competing power and survival. As industrial performance is crucial in the view of the present dynamic and turbulent business environment and economic scenario of liberalisation and globalisation, an attempt is made in the book to include all the major aspects of performance evaluation practices, namely balanced score card applications, performance measurement through ratios, social reporting, financial reporting and other performance evaluation practices.

Dhirendra Nath Konar (2005)¹⁸⁵ study the influence of world Trade Organisation on India's foreign trade. The article narrates in detail the positive and negative impact of globalisation on India's foreign trade. He concludes that in spite of the good results of globalisation in favour of the developing countries, poor quality of products and continuous pressure from the developed countries hinder the pace of development.

The Asian Economic Review (2005)¹⁸⁶ observes that the Indian economy has maintained reasonable growth performance in the past 3 years, despite hardening of International oil and steel prices, adverse seasonal conditions like the deficient south-west monsoon and extensive damage to life and property due to the Tsunami along her southern coast. But

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on a close observation one can see that merchandise trade deficit is increasing on account of oil import growth and tightening of interest growth.

Mohapatra et al., (2005)¹⁸⁷ in their paper surveys a selected number of studies that deals with the theoretical and empirical contributions on the linkages between the environment and economic development. It reviews the different issues relevant for modeling and estimating the above mentioned economic relationship. The survey throws light on the different aspects of linkages, which provide guidelines for many important aspects of empirical research on the area of environmental economics.

Geert Neve (2005)¹⁸⁸ in his book presents an analysis of contemporary labour politics in India's informal economy. The informal sector of India has expanded rapidly over recent decades, following increased integration of economic networks. In this context the book builds on and contributes to new strands in the debates about labour relations in the informal sector on the sub continent.

Bagchi and Das (2005)¹⁸⁹ in their article analyses the employment pattern in various sectors of the economy and the intersectional migration pattern of employees. In both West Bengal and Gujarat, a significant decline in organised sector employment since the 1980s, along with a stagnant or slightly declining employment in unorganised manufacturing sector, has resulted in dramatic fall of employment in the industrial sector.

Das (2005)¹⁹⁰ in his article gives a brief account of the reasons how the good and brilliant decisions by eminent personalities like

Abdul Kalam, the President of India can be neglected by the existing administrative and bureaucratic system.

Pavan K Varma (2004)¹⁹¹ presents some very important observations in his book about the Indian business culture and social setup. The book brings the readers in India and abroad, face-to-face with the social psychology of Indians today.

Binitha Thampi (2004)¹⁹² observes that, in line with the overall change in the policy approach to women's development from family centered to employment and empowerment centered approach, the decentralised planning programme in Kerala attempted a gender planning exercise in the local self Governments. The paper critically analyses the initiatives under the scheme, especially the self-help group's deprivation within the family, irrespective of the income status. The exclusion of a large number of women in the programme is argued to have adversely affected the goal of economic development of women in general.

Ashuthosh Kumar (2003)¹⁹³ explains the importance of income distributions in the economic development of a nation. Economic theories and studies have shown that the stability of a society depends on the balance between different income groups. Realising the importance of income equality, the author has suggested various policy measures to achieve equality. According to him among other measures, we should promote the share of manufactured exports as a proportion of total exports of the country.

Hoeven and Shorrocks (2003)¹⁹⁴ observe that the economic prosperity of the western developed countries is a result of sustained economic growth which has been based in part on their efficient institutions or rules in compassing among other things, an efficient transaction system supported by an effective judicial and political system. However in developing economics there is a wide spread view that the growth of macro economy is necessary and sufficient for economic development and they suffer from adequate and sufficient institutions and rules to ensure a balanced development strategy.

Sharma (2003)¹⁹⁵ opines that the mixed system of planning in India by democratic persuasion, combined with a broad frame work of direction, did not fully come up to the people's expectations. Many of the thinkers strongly believe that, had we adopted the Gandhian Model from the very beginning,

many problems could have been solved. The author expresses his grief that the meaning of Sarvodaya (well being of all) is lost in the developmental planning of the Indian economy.

Subramanian Swamy (2003)¹⁹⁶ makes a comparative study of the economic performance of India and China in the view of economic reforms. The book expresses its opinion that the high growth rates in the economic reform period achieved by these two giant sized economies sustained over nearly two decades is highest in the world, and much higher than the four percent per year growth rate attained by the two nations under the socialist planning during 1952-78 period. This trend support the stand that the State ownership of the economy had acted as a brake on the accelerations of the economy, and that the economic liberalisation, de-regulations and market principles were necessary for raising the growth rates of the economy that require India and China to say goodbye to the "Command Economy".

Gondhalekar and Salunkhe (2002)¹⁹⁷ views that in a developing country like India, higher productivity leads to economic growth, better wages, better working conditions, more employment opportunities, improved exports and foreign exchange reserves of the country. Since the resources available are limited and scarce, optimum utilisation of resources and higher prosperity are essential for improving the living standards and the prosperity of a nation.

Athukorala (2002)¹⁹⁸ analyse in detail the developmental issues of South Asian Countries and made suggestions for improving the situations in the area.

Mathew Manimala (2002)¹⁹⁹ in his article makes an assessment of the level of entrepreneurial activity in India. The study made by him reveals the fact that the Indian economy seems to be in a very vibrant phase, with an exceptionally high rate (17.9 percent) of entrepreneurial activity, second only to Thailand (18.9 percent) among 37 countries that participated in the GEM project 2002.

Narasimham (2002)²⁰⁰ recognises growth, poverty alleviation, improvement of social sectors, food security, domestic resource improvement, favourable environmental policies and balance of payment position as the major issues in development.

Patra (2002)²⁰¹ observe that for any developing country, particularly a country like India, with massive population and resource problems, a high rate of economic development is essential for breaking the vicious circle of poverty.

Thakur (2001),²⁰² in his book views that, the economic role of women in development has been one of the pivotal themes of debates in many of the developing countries. The cultural bias against women will need to be reduced by supportive policies, legal and institutional frame work for promoting entrepreneurial education of women.

Govindan Parayil (2000)²⁰³ illustrates that despite the fact that economic growth in Kerala has been slow, it has achieved tremendous results in important areas such as literacy, life expectancy, quality of life and mortality rates.

Oommen (1999)²⁰⁴ made an effort in his study to analyse the development experience of Kerala. He explains that the industrial capitalism never made its real debut in Kerala, yet the capitalist value systems, norms and perspectives on life and literature had began to penetrate Kerala's life very early. While Vol.1 is a broad critique of the Kerala model of development, Vol. II seeks to reappraise the issues relating to the sustainability of the model from specific sectoral perspectives, prefaced by an excellent discussion on the implications of the fertility decline and demographic transition of the State. The two volumes containing contributions by eminent scholars had made rich additions to the theory and practice of development, which has been undergoing great re-thinking over the years.

Prakash (1999)²⁰⁵ in his book containing articles on various developmental issues included topics such as economic reforms and the performance of Kerala economy, aging, poverty and unemployment, migration and urbanisation, agriculture industry and power and Kerala and WTO. While evaluating the performance of the Kerala economy, the author observes that, though economic reforms gave a boost to the State's economy during the first half of the 1990s, the economy could not sustain that tempo of development and reverted back to recession since the mid 1990s. Evidences discussed in the books suggest that four major factors namely internal, structural, and international and policy related contributed to the recession.

Francis Cherunilam (1998)²⁰⁶ observes that internationalisation and globalisation of business are the order of the day and have resulted in expanded horizon for business in recent times. Globalisation strategies need to be developed by Indian corporates. The author suggests that the export promotion performance has to be replaced by well-conceived manufacturing, marketing and promotional efforts in a strident manner, if India needs to capture a noticeable share of increase in the international trade.

Suresh (1998)²⁰⁷ in his research paper tries to establish that, development means more goods to consume, more facilities to enjoy, more health services, better education and many other desired things improving the life on a sustained basis. Illiteracy, ill health, unemployment, structural inequalities, ecological imbalances etc. frustrates such opportunities.

Agarwal (1997)²⁰⁸ enables the readers to get into a close understanding of the Indian Economy. He analyses the economies of under development and development and provides an overview of the past and the present of the economy. It also study in detail various aspects of national income, its industrial origin, its distribution and poverty, sectoral problems bearing on agriculture, industry and services.

Rao (1995)²⁰⁹ makes a very detailed study of the changes that took place in the Indian economy as a result of the new economic policy coupled with liberalisation and globalisation. The book is of the view that the entry of foreign enterprises and corporations has made the market more competitive than ever.

World Bank Study Report (1995)²¹⁰ on economic development of India suggests that, without substantial improvements in public savings, the economy will not be able to accommodate higher levels of investments - public and private, physical and social - needed to accelerate and maintain growth and reduce poverty.

George (1993)²¹¹ made a study on Kerala model of development. It tries to look into the development crisis in Kerala in spite of the reputation of Kerala model of development in the national and international spheres. It also highlights the limitation of inexpensive socio-cultural development without having to wait for reaching higher stages of economic growth and development.

Uma Kapila (1992)²¹² provides an exhaustive and critical account of various aspects of structural reforms introduced in the Indian economy in the post liberalisation period.

Franke and Chasion (1990)²¹³ evaluates the case of Kerala economy as an example of development without growth. In spite of the high level of standard of living of people and social development, the economic growth is far below the standards.

Mehla (1989)²¹⁴ suggests that the needs and priorities of different regions as well as their potential for short term and long term development should be taken in to account in drawing up and continually renewing their developmental programs.

Oommen (1979)²¹⁵ is of the opinion that the infrastructural facilities of Kerala are much ahead of any other State in India. Admittedly in terms of

social infrastructure like education and health, economic infrastructure like power and transport facilities and institutional infrastructure like banking, Kerala stands ahead and shoulders above all other States in India.

Singer (1964)²¹⁶ explore in detail the developmental issues of Africa and North East Brazil.

Economic Depression Enquiry Committee Report (1931),²¹⁷ makes a detailed analysis of the causes and effects of the economic depression in the Travancore area.

2.4 Conclusion

To conclude, the researcher hopes that the literature reviewed so far provide the reader a broad idea about some of the earlier studies (relating to the present study) that have been made in the areas of industrial development, industrial financing and other related areas.

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CHAPTER III

INDUSTRIAL DEVELOPMENT IN KERALA – AN OVERVIEW

3.1 Introduction

Kerala has been traditionally backward in industrial development. A number of studies conducted by eminent scholars and institutions are available to trace the causes of industrial backwardness of the State.

A major study with a broad historical perspective on the industrialisation of Kerala came from Thomas Issac and Michael Tharakan (1986)¹ which focused on the historical routes of industrial backwardness of the State. The study pointed out that the people with necessary skills and resources were eager to invest their capital mainly in the plantation sector instead of investing in the industrial enterprises.

Oommen (1979)² made a detailed case study on the inter-state shifting of industries in the States of Kerala, Tamil Nadu and Karnataka that specifically attempted to examine the high labour cost hypothesis in the Kerala industries. The study examined the relative cost structure of selected industries and implementation of labour welfare programmes. It was found that the unit cost of production was high in Kerala when compared to the neighboring States.

Pyaralal Raghavan (1986)³ made an elaborative study on the traditional industries of Kerala. The study pointed out that, even though the traditional industries like handloom, coir and beedi have a very important role in the industrialisation of Kerala, the performance of these industries were not very successful in the financial viability and generation of employment.

Alice Albin (1990)⁴ who made a comparative study on the industrial performance of South India held some regional factors responsible for the

industrial backwardness of the State. They are: labour disputes, high wage cost, high land prices, low public investment, poor natural endowment, poor performance and non-availability of entrepreneurs.

Prakash (1994)⁵ suggested an alternative hypothesis based upon three arresting growth factors such as unfavourable economic factors, unsound development policies and unfavourable social, political and labour factors. He states that the industrial development of the State is retarded due to the operations of these non-motivating factors.

The aforesaid observations only partially explain the causes of industrial backwardness of the State. Till the early decades of the twentieth century, industrial development of Kerala mostly centered on a few plantation crops like coconut, cashew nut etc. The production of coir yarn and fibre spread through out the coastal belt of Travancore, utilising the cheap labour that was abundantly available in the region. The cashew industry appeared on the scene by mid nineteen twenties. The intervention of Basel German Missionaries revived the weaving and the tile industries considerably.

A common feature shared by all the traditional industries is their regional concentration on account of the geographical, historical and sociological factors as well as resource endowments. For instance, coir industry flourished throughout the coastal belt of the State and the manufacture of coir products was concentrated in Alappuzha district. Similarly, the handloom industry was concentrated in Kannur and Thiruvananthapuram districts, and most of the cashews processing units were confined to in and around Kollam district.

Attempts were made by the prevailing Governments to make Kerala a prospective, industrially attractive State, in spite of a lot of social and cultural bottlenecks. Though the total outlay on Industry and mining in the First Five Year Plan was negligible (Rs. 112 lakhs ie. 3.73 per cent of the total outlay)⁶, sanctioning of five Industrial Estates in the beginning of the Second Plan

was a land mark in the growth of small scale sector in Kerala. The formation of the Kerala State Small Industries Corporation was an important development during the Third Plan period.

The introduction of Investment Subsidy in the industrially backward districts in the Fourth Plan period was another bold step towards the efforts for industrial development. The Government offered investment subsidy of ten and fifteen per cent in the backward and most backward districts respectively.

The establishment of the two State level financial and developmental organisations namely, the Kerala Financial Corporation in the year 1953 and the Kerala State Industrial Development Corporation in the year 1961 was a turning point in the path of industrialisation of Kerala. Both the agencies together satisfy a major part of the financial requirements of the industrial sector of Kerala.

The concept of District Industries Centers originated in 1977 as a part of the Industrial Policy of the Government of India. The District Industries Centers came in to existence in Kerala by July 1978 in all the then districts. They have been conceived as a single agency for making available all the financial and technical assistance, inputs and other services required by an industrial entrepreneur under one roof.

The present industrial scenario of Kerala witnesses serious efforts from the part of the Government of Kerala to identify new opportunities and to equip itself to meet the emerging challenges. The Industrial Policy, Information Technology Policy, Bio-technology Policy, Labour Policy, Export Policy, etc, were all intended towards the enhancement of investment, especially in the industrial sector with the objective of creating more income and employment. As per the latest figures (2003 – 04)⁷ the growth of the manufacturing sector of Kerala was 7.75 per cent at current prices as against the growth of 1.03 per cent in the previous year.

3.2 Industrial Promotion Agencies in Kerala

The Government of Kerala assists industrial / business units by providing financial assistance, infrastructure and training or consultancy services. Important agencies / departments engaged in industrial promotion in the State include:

- Kerala State Industrial Development Corporation
- Kerala Financial Corporation
- Small Industries Development Bank of India
- Kerala Industrial Infrastructure Development Corporation
- Directorate of Industries and Commerce
- Small Industries Development Corporation
- Small Industries Service Institute
- Kerala Industrial and Technical Consultancy Organisation and
- Centre for Management Development

The Kerala State Industrial Development Corporation (KSIDC) has consciously decided to focus on its role as a facilitator rather than a lending agency in view of the fact that alternate and cheaper source of credit are available for projects from other financial institutions. The Corporation concentrates on its promotional activities with the objective of increasing the pace of industrialisation in the State.

Taking into account the large potential for growth in the area of Information Technology, Biotechnology and High-Tech Industries, the Corporation takes steps to attract and promote such projects in the State. With the initiatives taken by the Corporation, the Kerala Venture Capital Fund for encouraging and promoting entrepreneurship in the above mentioned areas has been established with the involvement and the participation of the Small Industries Development Bank of India and the Kerala Financial Corporation. Recently the Corporation has been made the Single Contact Point for all the Government clearances at the State level, as

per the Single Window Clearance Scheme of the Government of Kerala. All initial clearances for setting up medium and large-scale industries can be obtained by submitting a composite application to the KSIDC. It acts as the Single Contact Point by interacting with all the respective agencies and facilitating the speedy accordance of various clearances.

The Small Industries Development Bank of India (SIDBI), the leading institution in promoting small industries in India, plays its role by contributing a considerable share of the total financial assistance given to the industrial sector in the State. One of the major initiatives taken by the Corporation in the event of industrial development is the setting up of Small and Medium Enterprises (SME) Fund for promoting small-scale and medium-scale enterprises.

Kerala Industrial Infrastructure Development Corporation (KINFRA), the industrial catalyst of the State has been following a conscious effort of industrial development specifically aimed at the economic development of the industrially backward regions of the State. The Corporation has been setting up Industrial Parks, Townships, Industrial Zones, etc., which provide all facilities required by the entrepreneurs for starting an industry. Assistance to States for Developing Export Infrastructure and Allied Activities (ASIDE) is a Government of India scheme intended towards the development of export infrastructure. KINFRA is the nodal agency for coordinating the activities under ASIDE in the State.

The Directorate of Industries and Commerce provides infrastructure facilities for small-scale sector by acquiring land and development of it into development area / plots with facilities like developed land, road, water supply, electricity, building, etc.

Kerala Small Industries Development Corporation, a promotional agency owned by the Government of Kerala was set up in 1975. The Corporation is rendering all kinds of assistance to the small-scale industries in the State. At present, the activities of SIDCO are confined to the

distribution of raw materials to industries, marketing SSI products, maintenance of industrial and mini-industrial estates and doing civil works for the industries department and some other Government agencies. SIDCO is also running a few production units that undertake various kinds of job works and manufacturing activities.

One of the major thrust areas for export promotion has been Special Economic Zones (SEZ). The scheme provides for the setting up of SEZs in the country with a view to provide an internationally competitive and hassle-free environment for exports. Kochi is an Export Processing Zone under the scheme.

The Centre for Managing Development (CMD) provides research, consulting and training support to the development agencies, corporate organisations and the Government at the National, State and Local levels. The CMD undertake research assignments for the Government of India, Government of Kerala, corporate enterprises (public and private sectors) and other development agencies.

Small Industries Service Institute (SISI) is a field office of Small Industries Development Organization (SIDO) under the Ministry of SSI and ARI, Government of India, engaged in the promotion and development of small-scale industries in the State and renders common facility services to needy entrepreneurs and SSI units.

The main function of SISI is to provide techno-economic and managerial assistance to the existing and prospective entrepreneurs / small-scale units in the State of Kerala and the Union Territory of Lakshadweep. The technical officers of the respective divisions of the institute carry out these functions. The institute with a view to cultivate entrepreneurial qualities in young men and women and motivate them to set up their own small-scale industrial ventures conducts entrepreneurial development programmes.

The Kerala Industrial and Technical Consultancy Organisation extend its help in providing services such as technical advices to those entrepreneurs who run projects of technical nature. The organisation maintains expert team for providing technical help for the existing and the new enterprises.

The Kerala Financial Corporation, as the premier institution in the State financing small and medium enterprises performs a crucial role in the industrialisation process of Kerala. It acts in the line of a developmental bank for accelerating the industrialisation in the State by providing financial assistance, project advices and other similar aids.

3.3 Industrial Growth in India

Evidently industrialisation has a major role to play in the economic development of developing countries like India. The essential pre-requisite for breaking vicious circle and accelerating development is a major shift from low-productivity occupations to high-productivity occupations. In general, the net value of output per person is higher in industry than in agriculture. In industry the scope for internal as well as external economies is greater than that of the other sectors and certainly greater than in agriculture. As industrialisation proceeds, the economies of scale and international linkages become more pronounced. It also leads to the creation of economic surplus in the hands of the industrial producers for further investments. Industrialisation acts as an instrument, both, for creating a capacity to absorb excess labour power and for creating an environment for diversification of the market required at higher stages of economic development.

In the words of Myrdal, industrialisation is held to be crucial to develop a strategy because it will radiate stimuli throughout the economy of the country and lift it out of stagnation and poverty. Thus industrialisation can serve as an effective instrument to uplift the socio-economic conditions of the people (1968)⁸. The Industrial sector that possesses a relatively high marginal propensity to save and invest contributes significantly to the

eventual achievement of a self-sustaining economy with continued high levels of investment and rapid rate of increase in income and industrial employment.

It is thus clear that industrialisation is a pre-requisite for raising the national income as well as per capita income, to remove unemployment and under employment, to promote agriculture, which helps accelerate the pace of industrialisation and economic progress.

The planned industrialisation programme in India started with the formulation of the Industrial Policy Resolution of 1956, which emphasised the role of the State in the industrialisation process of an economy. Gradually, allotments for the industrial sector have been made in the Five Year Plan outlays so as to increase the pace of industrialisation.

3.4 Industrial Growth in Kerala

Ever since the birth, Kerala economy witnessed a slowdown in industrialisation compared to the other States of India. Even the present status of the industrial sector of Kerala does not reveal a different picture. In table 3.1 an attempt is made to compare the industrial growth of India and Kerala taking in to consideration the contribution of the manufacturing sector (as no corresponding figures of the total industrial sector is available in spite of earnest attempts) towards the State NDP at current and constant prices.

The growth rate in table 3.1 is measured by taking the figures of the year 1998-99 as the base. The contribution of the manufacturing sector in the National NDP (at current prices) shows that the Indian manufacturing sector records a very good growth starting from a small growth rate of 4.74 percent during the year 1999-00 to a high growth rate of 55.78 percent during the year 2003-04.

Table 3.1
Contribution of Manufacturing sector to NDP - India and Kerala
(Rs. in crores)

Year	India				Kerala			
	Current		Constant		Current		Constant	
	Amount	GR	Amount	GR	Amount	GR	Amount	GR
1999-00	209655	4.74	147695	2.92	6123	9.69	3697	5.48
2000-01	239647	19.72	159080	10.86	6031	8.04	3531	0.74
2001-02	251274	25.53	164151	14.39	5508	-1.33	3122	-10.93
2002-03	276936	38.35	175737	22.46	5718	2.44	3088	-11.90
2003-04	311840	55.78	188817	31.58	5924	6.13	3067	-12.50

Source: *Economic Review- Various years*

(GR =Growth Rate)

The same trend of growth is visible in the contribution of the manufacturing sector in National NDP at constant prices. Even though the rate of growth during the year 1999-00 was small (2.92 percent), it went up to a high level of 31.58 percent during the year 2003-04.

The growth rate in the contribution of manufacturing sector in the State NDP at current prices in Kerala draws a different picture. During the year 1999-00 the growth rate was good at 9.69 percent. However the rate of growth declined to 8.04 percent during the year 2000-01, and became negative by 2001-02. Then the growth rates slightly picked up to 2.44 percent (2002-03) and 6.13 percent (2003-04).

The growth rate in the contribution of manufacturing sector in the State NDP at constant prices depicts the true picture of the backwardness of Kerala's manufacturing sector. The growth during the study period 1999-04 started with a good rate of 5.48 percent during the year 1999-00. However it went down drastically to 0.74 percent by the next year. The remaining three

years 2001-02, 2002-03 and 2003-04 has given the Kerala economy negative growth rates of 10.93 percent, 11.90 percent and 12.50 percent respectively.

The facts and figures shown in table 3.1 undoubtedly depict the backward picture of the manufacturing sector of Kerala economy. This picture becomes more relevant when the manufacturing sector of Indian economy is performing well.

3.5 Sectoral Distribution of State GDP at Current Prices

The measurement of contribution of different sectors of Kerala economy towards the State Gross Domestic Product (GDP) is very much essential in order to evaluate the industrial development of Kerala. Table 3.2 presents the sectoral distribution of GDP at current prices and its growth rates taking 1998-99 as the base.

Table 3.2
Sectoral Distribution of GDP in Kerala at Current Prices (1999-04)

Year	Primary sector		Secondary sector		Tertiary sector		Total	
	Amount	GR	Amount	GR	Amount	GR	Amount	GR
1999-00	1561108 (24.97)	11.02	1320203 (21.12)	2.75	3370133 (53.91)	14.87	6251444 (100.00)	11.14
2000-01	1488094 (21.33)	5.83	1546286 (22.16)	20.35	3942612 (56.51)	34.39	6976992 (100.00)	24.04
2001-02	1372893 (18.98)	-2.36	1585282 (21.91)	23.39	4276744 (59.11)	45.78	7234919 (100.00)	28.63
2002-03	1385424 (17.14)	-1.47	1784978 (22.08)	38.93	4914026 (60.78)	67.50	8084428 (100.00)	43.73
2003-04	1391771 (15.43)	-1.02	1995961 (22.14)	55.35	5629420 (62.43)	91.88	9017152 (100.00)	60.31

Source: Economic Review- Various years (Figures in the parenthesis are percentage share of contribution)

Table 3.2 shows that there is gradual drop in the contribution of the primary sector in GDP. The contribution of the primary sector during the year 1999-00 was 24.97 percent, which dropped to 21.33 percent by the next year. This steady trend continued till the year 2003-04 in which the contribution was as low as 15.43 percent. During the same period, the contribution of tertiary sector had witnessed an increase from 53.91 percent (1999-2000) to 62.43 percent (2003- 04).

The contribution of the secondary sector had remained almost stagnant through out the same period. It was 21.12 percent during the year 1999-00 and 22.14 percent during the year 2003-04. A comparison of the secondary sector with the primary and the tertiary sectors shows that the contribution of the secondary sector is better when compared to the primary sector and it is poor when compared to the tertiary sector.

Table 3.2 shows that the State GDP has grown magnificently over the period of five years under review. But there is a recession very much evident in the primary sector during the period. During the year 1999-00, the primary sector has shown growth of 11.02 per cent. During the year 2000-01 also growth continued but at a lower rate than the previous year, that is, at 5.83 per cent. The remaining three years during the period of study had shown negative growth rates of 2.36, 1.47 and 1.02 per cent respectively. At the same time it can be seen that the growth rate of the State GDP was marching ahead. When the growth rate in the primary sector was 11.02 per cent during 1999-00, almost the same was the GDP growth rate (11.14 per cent). However, the growth rate of GDP significantly increased year-by-year and reached at a height of 60.31 per cent during 2003-04. A steady and fast growth rate is visible over the entire economy of Kerala.

Although the percentage increase (Table 3.2) in the contribution of secondary sector has remained almost stagnant, the growth rate shows positive trends. Though the rate of growth was as low as 2.75 per cent during the year 1999-00, it increased considerably to 55.35 per cent during

the year 2003-04. The growing trend of the secondary sector is definitely a good indication of the growth of the economy. At the same time the fact remains that the rate of growth in the secondary sector is not up to the level of the rate of growth of the GDP. The growth rate in the industrial sector was only 2.75 per cent during the year 1999-00 when the economy recorded a growth rate of 11.14 per cent. Similarly the rate of growth of the industrial sector was only 55.35 per cent when the GDP witnessed a growth rate of 60.31 per cent during the year 2003-04.

The above difference in the growth rates of the secondary sector and the State GDP is caused by a tremendous rate of growth recorded by the tertiary sector. Over the period of study (1999-04) the rate of growth in the tertiary sector is much higher than that of the GDP. The year 2003-04 witnessed a magnificent growth rate of 91.88 per cent in the tertiary sector, when the rate of growth in the primary and secondary sectors were minus 1.02 per cent and 55.35 per cent respectively and the GDP growth rate was 60.31 per cent.

3.6. Distribution of the Contribution of Secondary Sector in State GDP (Current Prices)

The growth in the industrial sector of Kerala is studied by dividing the industry into three categories, that is: 1) the Manufacturing industry, 2) the Electricity, Gas and Water supply industry and 3) the Construction industry.

Table 3.3
Distribution of the Contribution of Secondary Sector to State GDP at Current Prices (1999-04)

Year	Manufacturing		Elec. Gas, water supply		Construction		Total	
	Amount	GR	Amount	GR	Amount	GR	Amount	GR
1999-00	700918 (53.09)	8.63	104370 (7.91)	26.14	514915 (39.00)	-7.53	1320203 (100.00)	2.75
2000-01	699137 (45.21)	8.36	167076 (10.80)	101.93	680073 (43.98)	22.13	1546286 (100.00)	20.35
2001-02	666504 (42.04)	3.30	189068 (11.93)	128.51	729710 (46.03)	31.04	1585282 (100.00)	23.39
2002-03	701236 (39.29)	8.68	236169 (13.23)	185.43	847573 (47.48)	52.21	1784978 (100.00)	38.93
2003-04	736817 (36.92)	14.20	291144 (14.59)	251.87	968000 (48.50)	73.84	1995961 (100.00)	55.35

Source: Economic Review- Various years (Figures in the parenthesis are percentage share of contribution)

Among the three categories of industry (Table 3.3), namely, the Manufacturing industry, the Electricity, the gas and water supply industry and the Construction industry, the contribution of the manufacturing sector sharply declined. However the contribution of the electricity, gas and water supply and the construction industries went up. During the year 1999-00, the share of the manufacturing sector towards the contribution of secondary sector to GDP was high at 53.09 per cent, which steeply fell into a low share of 36.92 per cent during the year 2003-04. The drop in this case is steady. During the same period the contribution of the electricity, gas and water supply industry, was increasing though the increase was not very high. The

contribution of the construction industry had reported the maximum among the three categories. It was 39 per cent during the year 1999-00 which steadily increased to 48.50 per cent during the year 2003-04. Analysis reveals that the lost share of the manufacturing sector was being taken away by the construction industry. This is not a good sign from the point of view of economic development, especially when Kerala is a major consumer State of manufactured products.

The growth rate (Table 3.3) in the share of the manufacturing sector to the contribution of secondary sector to the State GDP showed mixed trends of decline and recovery. The rate of growth recorded during the year 1999-00 was 8.63 per cent, which declined to 8.36 percent and 3.30 percent in the subsequent years of 2000-01 and 2001-02 respectively. However the rate of growth increased to 8.68 per cent during the year 2002-03 and to a comparatively high level of 14.20 per cent during the year 2003-04. The contribution of the electricity gas and water supply industry during 1999-04 recorded a tremendous growth. The rate of growth was 26.14 per cent during the year 1999-00 which jumped into a very high rate of 251.87 per cent over the five-year period of study. The growth rate in the construction industry was also not behind. Though the rate of growth during the year 1999-00 was minus 7.53 per cent, it steadily increased to a safe position of 73.84 per cent during the year 2003-04.

A comparison of the rates of growth over the five-year period in the three categories of industry with the growth rate of the secondary sector reveals that the rate of growth of the manufacturing sector was far behind when compared to the other two. While the construction industry recorded a higher rate of growth when compared to the rate of growth in the secondary sector, the electricity, gas and water supply industry achieved nearly a five-fold growth over the overall growth.

3.7 Sectoral Distribution of GDP at Constant Prices

Table 3.4 shows the share of contribution and the growth rates of the three sectors of the economy in the State Gross Domestic Product at constant prices during the period 1999-04.

Table 3.4
Sectoral Distribution of GDP at Constant Prices in Kerala (1999-04)

Year	Primary sector		Secondary sector		Tertiary sector		Total	
	Amount	GR	Amount	GR	Amount	GR	Amount	GR
1999-00	896947 (24.56)	2.61	732304 (20.05)	1.71	2022342 (55.38)	11.59	3651593 (100.00)	7.20
2000-01	730402 (19.39)	-16.44	799081 (21.21)	10.98	2237561 (59.40)	23.46	3767044 (100.00)	10.59
2001-02	729975 (19.09)	-16.49	792379 (20.72)	10.05	2301171 (60.18)	26.97	3823525 (100.00)	12.24
2002-03	740689 (18.17)	-15.26	838378 (20.56)	16.44	2498035 (61.27)	37.84	4077102 (100.00)	19.69
2003-04	725790 (16.74)	-16.97	888849 (20.51)	23.45	2719773 (62.75)	50.07	4334412 (100.00)	27.24

Source: Economic Review- Various years (Figures in the parenthesis are percentage share of contribution)

The contribution of the primary sector towards the State GDP at constant prices (Table 3.4) dropped from 24.56 percent to 16.74 per cent during the period of study (1999-04). While the contribution of the secondary sector towards the GDP showed stagnation, the contribution of the tertiary sector witnessed an increase from 55.38 per cent to 62.75 per cent during the same period.

The rate of growth in the contribution of the three sectors of the economy towards the State GDP at constant prices reveals a slightly different picture. When the growth rate of the primary sector revolved itself around minus 16 percent in four out of five years under the period of review, the secondary sector witnessed growth from 1.71 per cent (1999-00) to 23.45 percent (2003-04). Similarly the tertiary sector revealed high growth rates ranging from 11.59 per cent (1999-00) to 50.07 per cent (2003-04).

3.8 Distribution of the Contribution of Secondary Sector in State GDP (Constant Prices)

Analysis of the share of the three categories of industry towards the contribution of secondary sector in the State GDP at constant prices (Table 3.5) shows almost the same trend as in the case of GDP at current prices (Table 3.3). While the contribution of the manufacturing sector towards the GDP shows a declining trend, the contribution of the other two sectors shows increasing trends. The contribution of the manufacturing sector declined from 59.52 per cent (1999-00) to 43.15 per cent (2003-04). While the electricity, gas and water supply sector witnessed increasing growth rates in its contribution (from 9.09 per cent to 17.62 per cent) during the period of study, the construction industry recorded an increase in its contribution from 31.39 per cent (1999-00) to 39.23 per cent (2003-04).

Table 3.5
Distribution of the Contribution of Secondary Sector in the State GDP at
Constant Prices (1999-04)

Year	Manufacturing		Elec. Gas, water supply		Construction		Total	
	Amount	GR	Amount	GR	Amount	GR	Amount	GR
1999-00	435887 (59.52)	7.46	66544 (9.09)	29.39	229873 (31.39)	-12.57	732304 (100.00)	1.71
2000-01	410022 (51.31)	1.08	101258 (12.67)	96.89	287801 (36.02)	9.46	799081 (100.00)	10.98
2001-02	378872 (47.81)	-6.60	111874 (14.12)	117.54	301633 (38.07)	14.72	792379 (100.00)	10.05
2002-03	380263 (45.36)	-6.26	132804 (15.84)	158.23	325311 (38.80)	23.73	838378 (100.00)	16.44
2003-04	383514 (43.15)	-5.46	156628 (17.62)	204.56	348707 (39.23)	32.63	888849 (100.00)	23.45

Source: Economic Review- Various years (Figures in the parenthesis are percentage share of contribution)

Among the three categories of industry (Table 3.5) the percentage share of contribution as well as the rate of growth of the manufacturing industry shows declining trends. When the percentage contribution went down from 59.52 percent (1999-00) to 43.15 percent (2003-04), the growth rate during the same period also declined from 7.46 percent to minus 5.46 percent.

The electricity, gas and water supply industry shows a growth rate of 29.39 per cent during the year 1999-00 which significantly increased over the five-year period to 204.56 per cent (2003-04). The growth rate of the

construction industry also shows a positive growth from minus 12.57 per cent during the year 1999-00 to 32.63 per cent during the year 2003-04. While the rate of growth of both the electricity, gas and water supply and the construction industries are above the industry average, the rate of growth of the manufacturing sector is much below (even negative during three years) the industry average.

3.9 Sectoral Distribution of State NDP at Current Prices

Analysis of sectoral distribution of the State NDP at current prices (Table 3.6) during the period 1999-04 shows that there was a gradual drop in the contribution of the primary sector to the NDP. The contribution of the primary sector during the year 1999-00 was 26.18 per cent, which declined to 16.71 per cent during the year 2003-04. During the same period, the contribution of the tertiary sector witnessed an increase from 53.09 per cent to 60.66 per cent.

Table 3.6
Sectoral Distribution of NDP at Current Prices in Kerala (1999-04)

Year	Primary sector		Secondary sector		Tertiary sector		Total	
	Amount	GR	Amount	GR	Amount	GR	Amount	GR
1999-00	1490191 (26.18)	11.28	1180400 (20.74)	2.61	3022013 (53.09)	15.49	5692604 (100.00)	11.49
2000-01	1415432 (22.22)	5.70	1392584 (21.86)	21.06	3563495 (55.93)	36.19	6371511 (100.00)	24.78
2001-02	1298859 (20.35)	-3.01	1403664 (22.00)	22.02	3679204 (57.65)	40.61	6381727 (100.00)	24.98
2002-03	1313672 (18.49)	-1.90	1589181 (22.36)	38.15	4203515 (59.15)	60.65	7106368 (100.00)	39.17
2003-04	1318667 (16.71)	-1.53	1786539 (22.63)	55.30	4788107 (60.66)	82.99	7893313 (100.00)	54.59

Source: Economic Review- Various years
(Figures in the parenthesis are percentage share of contribution)

(Figures in the parenthesis are percentage share of contribution)

The contribution of the secondary sector to NDP remained more or less stagnant throughout the period of study. It was 20.74 per cent during the year 1999-00 and the increase was only nominal to the tune of 22.63 per cent by the year 2003-04. The analysis shows that the decrease in the contribution of the primary sector resulted in an increased contribution of the tertiary sector and it did not have any effect on the contribution of the secondary sector in the NDP during the period of study.

While the primary sector witnessed a declining trend in the case of rate of growth (Table 3.6), the other two sectors recorded growth. The rate of growth of the primary sector declined from 11.28 per cent during the year 1999-00 to minus 1.53 per cent during the year 2003-04. Comparison with the economy average shows that, the rate of growth of the primary sector was far below the rate of growth in the NDP (in fact negative during the last three years of the study period). The rates of growth in the secondary and tertiary sectors have recorded growth from 2.61 per cent (1999-00) to 55.30 per cent (2003-04) and from 15.49 per cent (1999-00) to 82.99 per cent (2003-04) respectively and both these growth rates were above the economy average.

3.10 Distribution of the Contribution of Secondary Sector in the State NDP (Current Prices)

Table 3.7
Distribution of the Contribution of Secondary Sector in the State NDP at Current Prices (1999-04)

Year	Manufacturing		Elec. Gas, water supply		Construction		Total	
	Amount	GR	Amount	GR	Amount	GR	Amount	GR
1999-00	612334 (51.88)	9.70	77090 (6.53)	33.39	490976 (41.59)	-8.12	1180400 (100.00)	2.61
2000-01	603075 (43.31)	8.04	137799 (9.90)	138.43	651710 (46.80)	21.96	1392584 (100.00)	21.06
2001-02	550833 (39.24)	-1.32	151264 (10.78)	161.73	701567 (49.98)	31.28	1403664 (100.00)	22.02
2002-03	571778 (35.98)	2.44	201144 (12.66)	248.04	816259 (51.36)	52.75	1589181 (100.00)	38.15
2003-04	592406 (33.16)	6.13	260205 (14.56)	350.23	933928 (52.28)	74.77	1786539 (100.00)	55.30

Source: Economic Review- Various years (Figures in the parenthesis are percentage share of contribution)

Analysis of the share of the three categories of industry towards the contribution of secondary sector in the State NDP at current prices (Table 3.7) shows a gradual decline in the contribution of the manufacturing sector. It declined from 51.88 per cent during the year 1999-00 to 33.16 per cent during the year 2003-04. During the same period both the other sectors, namely, the electricity, gas and water supply industry and the construction industry, recorded higher percentage of contribution year after year. The contribution of the electricity, gas and water supply sector increased from

6.53 per cent to 14.56 per cent and the contribution of the construction industry increased from 41.59 per cent to 52.28 per cent.

Analysis of the rate of growth (Table 3.7) in the share of the various categories of industry towards the contribution of secondary sector in the NDP at current prices shows different results. When the manufacturing sector reveals an almost stagnant growth rate over the five-year period of study, the other two sectors shows positive growth. The rate of growth of the manufacturing sector declined in the second and third years of the study period and it started picking up slightly during the fourth and fifth years. However the rate of growth in this sector was far below the overall growth rate of the industry.

Table 3.7 further shows that the electricity, gas and water supply industry had recorded a high rate of growth and the construction industry had recorded marginal rate of growth. The former showed a growth of 350.23 percent during the year 2003-04 from a small rate of 33.39 percent during the year 1999-00. Though the rate of growth in the construction industry during the year 1999-00 was minus 8.12 percent it increased to 74.77 percent during the year 2003-04. It is worth noting that the growth rates in both these sectors were above the average growth rate in the secondary sector.

3.11 Sectoral Distribution of State NDP at Constant Prices

Analysis of the sectoral distribution of State NDP at constant prices during 1999-04 (Table 3.8) reveals a gradual drop in the contribution of the primary sector. It steadily declined from 26.01 percent (1999-00) to 17.09 percent (2003-04). During the same period the tertiary sector had shown a steady growth rate from 54.51 percent to 63.60 percent.

Table 3.8
Sectoral Distribution of NDP at Constant Prices in Kerala (1999-04)

Year	Primary sector		Secondary sector		Tertiary sector		Total	
	Amount	GR	Amount	GR	Amount	GR	Amount	GR
1999-00	850968 (26.01)	2.59	637391 (19.48)	-0.19	1783256 (54.51)	11.72	3271615 (100.00)	6.76
2000-01	684423 (20.39)	-17.49	701997 (20.91)	9.92	1970096 (58.69)	23.42	3356516 (100.00)	9.53
2001-02	684795 (19.84)	-17.44	682963 (19.79)	6.94	2083177 (60.37)	30.51	3450935 (100.00)	12.61
2002-03	694743 (18.76)	-16.24	723416 (19.53)	13.28	2285540 (61.71)	43.18	3703699 (100.00)	20.86
2003-04	679101 (17.09)	-18.13	767474 (19.31)	20.17	2527124 (63.60)	58.32	3973699 (100.00)	29.67

Source: Economic Review - Various years (Figures in the parenthesis are percentage share of contribution)

The contribution of the secondary sector to the State NDP at constant prices dropped during the five-year period except in 2000-01. Though it had shown an initial increase from 19.48 percent (1999-00) to 20.91 percent (2000-01), it dropped to 19.79 per cent, 19.53 per cent and 19.31 per cent during the years 2001-02, 2002-03 and 2003-04 respectively. It is evident from the analysis that the decline in the primary sector was compensated by the tertiary sector rather than the secondary sector.

Analysis of the growth rate in the economy (Table 3.8) shows a decline in the primary sector, a mixed trend in the industrial sector and a steady growth in the tertiary sector. Of the five-year period under study, only

the year 1999-00 gave a positive growth rate of 2.59 per cent in the primary sector. During the remaining four-year period, there was no growth but a gradual decline. During the same period the tertiary sector had grown tremendously from 11.72 per cent to 58.32 per cent.

The secondary sector showed a downward trend initially and then recovered during the remaining period. The rate of growth was minus 0.19 percent during the year 1999-00 which gradually reached the level of 20.17 percent by the year 2003-04. During the period under review, the growth rate of only the tertiary sector was above the growth rate in the contribution of secondary sector to NDP.

3.12 Distribution of the Contribution Secondary Sector in State NDP (Constant Prices)

Table 3.9
**Distribution of the Contribution of Secondary Sector in State NDP at
Constant Prices (1999-04)**

Year	Manufacturing		Elec. Gas, water supply		Construction		Total	
	Amount	GR	Amount	GR	Amount	GR	Amount	GR
1999-00	369687 (58.00)	5.49	48518 (7.61)	35.02	219186 (34.39)	-13.10	637391 (100.00)	-0.19
2000-01	353129 (50.30)	0.76	82447 (11.74)	129.45	266421 (37.95)	5.62	701997 (100.00)	9.92
2001-02	312153 (45.71)	-10.93	89505 (13.11)	149.09	281305 (41.19)	11.52	682963 (100.00)	6.94
2002-03	308808 (42.69)	-11.88	112875 (15.60)	214.13	301733 (41.71)	19.62	723416 (100.000)	13.28
2003-04	306700 (39.96)	-12.49	139542 (18.18)	288.34	321232 (41.86)	27.35	767474 (100.00)	20.17

Source: *Economic Review - Various years* (Figures in the parenthesis are percentage share of contribution)

Analysis of the share of the three categories of industry towards the contribution of Secondary Sector in State NDP at constant prices (Table 3.9) reveals a drop in the case of the manufacturing sector and growth in the cases of the electricity, gas and water supply sector and the construction sector. The decline in the contribution of the manufacturing sector was gradual and steady. It dropped from 58 percent (1999-00) to 39.96 percent (2003-04). During the same period the electricity, gas and water supply and the construction industries contributed more to the NDP. When the contribution of Electricity, gas and water supply sector increased from 7.61 per cent to 18.18 percent, the contribution of the construction industry increased to 41.86 percent from 34.39 percent.

The rate of growth of the three categories of industry (Table 3.9) reveals that there was no growth in the manufacturing industry and tremendous growth in the electricity, gas and water supply industry. The construction industry also shows a steady growth. The growth rate of the manufacturing sector dropped from 5.49 per cent during the year 1999-00 to 0.76 percent during the subsequent year and reached at negative growth rates of 10.93 percent, 11.88 percent and 12.49 percent during the years 2001-02, 2002-03 and 2003-04 respectively.

During the same period the electricity, gas and water supply sector had recorded a very high growth rate, that is, from 35.02 per cent (1999-00) to 288.34 percent (2003-04). The rate of growth in the construction industry was commendable and it grew from minus 13.10 percent during the year 1999-00 to 27.35 percent during the year 2003-04. When compared with the average rate of growth over the secondary sector, only the manufacturing sector recorded a heavy setback.

3.13 Regional Variations in the contribution to State NDP

The industrial development of Kerala had been the subject of various studies since a long time. Almost all the major studies covered the industrial performance of the erstwhile Travancore and Cochin. However, studies on

the industrial performance of Malabar were rare to be found. The studies so far done, have presented a comparatively better picture of the industrial performance of the Southern and the Central regions, but due to the lack of systematic studies, the industrial development of the Northern region still remains unexposed. Hence an attempt is made to study the industrial development of Northern Kerala by dividing the State into three regions.

For the purpose of studying the regional distribution of the State NDP, Kerala is being divided into three regions, namely, the Southern region, the Central region and the Northern region. The Southern region consists of the districts Thiruvananthapuram, Kollam, Pathanamthitta, Alappuzha, and Kottayam. The Central region consists of Idukki, Ernakulam, Thrissur, and Palakkad districts, and the Northern region consists of the districts Malappuram, Kozhikode, Kannur, Wayanad, and Kasargod.

In order to study the industrial development of the Northern Kerala, an attempt was made to analyse certain parameters of industrial development and their rate of change in the three regions of Kerala over the period of five years under study (1999-04). The parameters selected for the purpose of analysis are: the contribution of secondary sector in the State NDP at current and constant prices, the number of registered factories and the volume of industrial employment offered during the period.

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3.13.1 Regional Distribution of NDP (Current Prices) in Kerala (1999-04)

Table 3.10
Regional Distribution of NDP at Current Prices in Kerala (1999-04)

Year	Southern		Central		Northern		Kerala	
	Amount	GR	Amount	GR	Amount	GR	Amount	GR
1999-00	2049553 (36.00)	5.78	1894143 (33.27)	7.56	1748908 (30.72)	5.57	5692604 (100.00)	6.30
2000-01	2274153 (36.04)	17.38	2100290 (33.29)	19.26	1934969 (30.67)	16.80	6309412 (100.00)	17.82
2001-02	2340139 (36.67)	20.78	2163364 (33.90)	22.84	1878214 (29.43)	13.37	6381727 (100.00)	19.17
2002-03	2611529 (36.75)	34.79	2405753 (33.85)	36.61	2089086 (29.40)	26.10	7106368 (100.00)	32.70
2003-04	2907859 (36.84)	50.08	2667899 (33.80)	51.49	2317546 (29.36)	39.89	7893313 (100.00)	47.39

Source: Economic Review - Various years (Figures in the parenthesis are percentage share of contribution)

The analysis shows that the contribution of the Northern region to NDP is lesser (Table 3.10) when compared to the Central and the Southern regions during the period of study. During the year 1999-00 the contribution of the Southern and the Central regions to the State NDP were 36.00 percent and 33.27 percent respectively when the contribution of the Northern region was only 30.72 percent. The same trend continued till the year 2003-04 when the contribution to the NDP by the Southern, the Central and the Northern regions was 36.84 percent, 33.80 percent and 29.36 percent respectively.

Table 3.10 also presents the growth rates (base year-1998-99) in the contributions of the three regions to NDP during the period of study (1999-

04). The growth rates also exhibits the same pattern of change as seen in the case of the percentage contribution towards NDP. During the year 1999-00 the rate of growth of the Northern region is the lowest (5.57 percent) when compared to the Southern (5.78 percent) and the Central (7.56 percent) regions. This trend continued till the year 2003-04 where the growth rates were 50.08 percent, 51.49 percent and 39.89 percent for the Southern, the Central and the Northern regions respectively, out of which the growth rate of the Northern region was the lowest.

When the overall growth rate in the State NDP is compared with that of the three regions, it is evident that the growth rates of both the Southern and the Central regions were above the State average and the growth rate of the Northern region was much below it.

3.13.2 Regional Distribution of NDP (Constant Prices)

Table 3.11 presents the regional distribution of the State NDP at constant prices. It is evident from the table that the regional distribution of NDP at constant prices is having more or less the same trend as that of the regional distribution of NDP at current prices. During the year 1999-00 the contributions of the Southern, Central and Northern regions in the State NDP were 36.18 percent, 33.36 percent and 30.46 percent respectively. The lowest contribution was recorded from the Northern region. Same trend can be seen throughout the five-year period under study. During the year 2003-04 the contributions of the Southern, Central and Northern regions were 37.10 percent, 34.01 percent and 28.89 percent respectively, of which the contribution of the northern region was considerably low. This presents the comparative backwardness of the Northern region in its contribution to the State NDP.

Table 3.11
Regional Distribution of NDP at Constant Prices in Kerala (1999-04)

Year	Southern		Central		Northern		Kerala	
	Amount	GR	Amount	GR	Amount	GR	Amount	GR
1999-00	1183769 (36.18)	8.22	1091298 (33.36)	10.11	996548 (30.46)	8.14	3271615 (100.00)	8.72
2000-01	1249660 (36.27)	14.24	1149037 (33.35)	15.93	1046368 (30.37)	13.55	3445065 (100.00)	14.49
2001-02	1273685 (36.91)	16.44	1173893 (34.02)	18.44	1003357 (29.07)	8.88	3450935 (100.00)	14.68
2002-03	1370357 (37.00)	25.27	1259723 (34.01)	27.10	1073619 (28.99)	16.50	3703699 (100.00)	23.08
2003-04	1474178 (37.10)	34.76	1351408 (34.01)	36.35	1148113 (28.89)	24.59	3973699 (100.00)	32.05

Source: Economic Review - Various years (Figures in the parenthesis are percentage share of contribution)

The growth rates in the contribution to the State NDP of the three regions (Table 3.11) shows that both the Southern and Central regions recorded growth rates higher than that of the State average during the year 1999-04 except during the first two years. When the NDP growth rate is 32.05 percent (2003-04), the Southern and Central regions have recorded growth rates of 34.76 percent and 36.35 percent respectively. However the growth rate of the Northern region is only 24.59 percent, which is much less than that of the NDP growth rate. Over the period of five years under study, when the Southern and Central regions have shown steady trends of growth, the Northern region has shown ups and downs in growth.

3.14 Regional Variations in the Contribution of Secondary sector to the State NDP

One of the major determinants of industrial development of an economy is the contribution of its industrial sector towards the State NDP. Therefore an attempt is made to study the regional contribution of the secondary sector in State NDP with the help of tables 3.12 and 3.13.

3.14.1 Variations at Current Prices

The contribution of the Northern region's secondary sector (Table 3.12) towards the State NDP at current prices was comparatively less than that of the Southern and the Central regions. The secondary sector of the Northern region contributed only 28.06 percent towards NDP during the year 1999-00 while the Southern and the Central regions contributed 36.22 percent and 35.72 percent respectively. This trend was visible throughout the five-year period under study. During the year 2003-04, when the Northern region contributed only 27.62 percent, the contribution of the Southern and the Central regions were 36.41 and 35.97 percent respectively.

Table 3.12
Regional Distribution of NDP in the Secondary Sector of Kerala at
Current Prices (1999-04)

Year	Southern		Central		Northern		Kerala	
	Amount	GR	Amount	GR	Amount	GR	Amount	GR
1999-00	427573 (36.22)	3.86	421628 (35.72)	3.03	331199 (28.06)	1.88	1180400 (100.00)	3.00
2000-01	482809 (36.18)	17.28	477135 (35.76)	16.60	374487 (28.06)	15.19	1334431 (100.00)	16.44
2001-02	507552 (36.16)	23.29	503826 (35.89)	23.12	392286 (27.95)	20.67	1403664 (100.00)	22.48
2002-03	576345 (36.27)	40.00	571145 (35.94)	39.57	441691 (27.79)	35.86	1589181 (100.00)	38.67
2003-04	650496 (36.41)	58.01	642615 (35.97)	57.03	493428 (27.62)	51.78	1786539 (100.00)	55.89

Source: Economic Review - Various years (Figures in the parenthesis are percentage share of contribution)

The growth rate in the contribution of the secondary sector of the Northern region (Table 3.12) to the State NDP appeared to be low compared to the State average. When the secondary sector of the State had shown a growth rate of 3.00 percent during the year 1999-00, the growth rate was as low as 1.88 percent in the Northern region. However the Southern (3.86 percent) and Central (3.03 percent) regions recorded higher growth rates than the State average. Similarly during the year 2003-04 when the Northern region recorded a growth rate of 51.78 percent, which was less than the State average of 55.89 percent, the Southern and Central regions recorded growth rates of 58.01 percent and 57.03 percent respectively.

3.14.2 Variations at Constant Prices

The regional distribution of the secondary sector in State NDP at constant prices (Table 3.13) shows that the contribution of the secondary sector in the Northern region is 27.68 percent during the year 1999-00. This contribution is lower than that of the Southern (36.74 percent) and the Central (35.58 percent) regions. It is the case through out the period of study (1999-04). As the Southern and Central regions have recorded contributions of 37.45 percent and 35.78 percent respectively during the year 2003-04 the Northern region has contributed only 26.77 percent. As in the other cases, this analysis also reveals the comparative backwardness of the Northern region.

Table 3.13
Regional Distribution of NDP in the Secondary Sector of Kerala at Constant Prices (1999-04)

Year	Southern		Central		Northern		Kerala	
	Amount	GR	Amount	GR	Amount	GR	Amount	GR
1999-00	234181 (36.74)	6.61	226809 (35.58)	6.13	176401 (27.68)	5.16	637391 (100.00)	6.03
2000-01	248193 (36.98)	12.99	238825 (35.58)	11.75	184201 (27.44)	9.81	671219 (100.00)	11.66
2001-02	252426 (36.96)	14.92	244021 (35.73)	14.18	186516 (27.31)	11.19	682963 (100.00)	13.62
2002-03	269023 (37.19)	22.47	258706 (35.76)	21.05	195687 (27.05)	16.66	723416 (100.00)	20.35
2003-04	287434 (37.45)	30.85	274597 (35.78)	28.49	205443 (26.77)	22.47	767474 (100.00)	27.67

Source: Economic Review - Various years (Figures in the parenthesis are percentage share of contribution)

Table 3.13 further indicates that the contribution of the secondary sector towards the State NDP from the Northern region recorded a lesser growth rate than that of the State average. When the State has attained a growth rate of 6.03 percent during the year 1999-00 the growth rate of the Northern region was only 5.16 percent. However the growth of the Southern (6.61 percent) and Central regions (6.13 percent) were above the State average.

Even though the contribution of secondary sector to the State NDP in all the three regions has shown growth, the Northern region shows a lesser growth rate than that of the Southern and Central regions. It is also seen that the difference between the growth rates of the Northern region and the rest of Kerala is getting wider from the year 2000-01 onwards.

3.15 Regional Variations in the Number of Factories

An important parameter used in measuring the industrial development of an economy is the number of registered factories during a particular period of time. The regional distribution of registered factories during 1999-04 is presented in table 3.14.

Table 3.14
Regional Distribution of Number of Factories in Kerala (1999-04)

Year	Southern		Central		Northern		Kerala	
	Amount	GR	Amount	GR	Amount	GR	Amount	GR
1999-00*	5816 (31.43)	4.19	7840 (42.37)	6.91	4848 (26.20)	0.92	18504 (100.00)	4.43
2000-01	5856 (31.58)	4.91	7806 (42.09)	6.45	4882 (26.33)	1.62	18544 (100.00)	4.66
2001-02	5844 (31.50)	4.69	7797 (42.02)	6.33	4913 (26.48)	2.27	18554 (100.00)	4.71
2002-03	5765 (31.57)	3.28	7672 (42.01)	4.62	4825 (26.42)	0.44	18262 (100.00)	3.06
2003-04	5814 (31.64)	4.16	7720 (42.01)	5.28	4842 (26.35)	0.79	18376 (100.00)	3.71

Source: Economic Review - Various years (Figures in the parenthesis are percentage share of contribution)

* Calendar year

In the case of the number of registered factories, the Northern region of Kerala is far behind the Southern and the Central regions (Table 3.14). The share of the Northern region in the case of number of factories during the period 1999-00 is 26.20 percent while the share of the Southern and Central regions were 31.43 percent and 42.37 percent respectively. The same trend continued till the year 2003-04, which recorded a share of 31.64 percent and 42.01 percent by the Southern and the Central regions respectively. Among the three regions, the Northern region recorded a comparatively lesser share of 26.35 percent in the number of registered factories.

The growth in the number of registered factories shows a disappointing picture of the prospects of industrial development in Kerala. There is no considerable growth in the number of registered factories corresponding to the rate of growth seen in the share of contribution of the industrial sector towards NDP. The growth rates in the number of registered factories found to follow an irregular pattern with net zero growth during the study period. This is true with the cases of all the three regions. In spite of the growth in the contribution of the industrial sector towards the State NDP, there is no growth in the number of registered factories in any of the three regions.

3.16 Regional Variations in the Industrial Employment

Another important parameter of industrial development is the magnitude of employment provided by the secondary sector. Table 3.15 presents the regional distribution of the volume of employment provided by the secondary sector and its growth rates during 1999-04.

Table 3.15
Regional Distribution of Volume of Employment in Kerala (1999-04)

Year	Southern		Central		Northern		Kerala	
	Amount	GR	Amount	GR	Amount	GR	Amount	GR
1999-00*	218072 (49.96)	-4.21	134955 (30.92)	-7.34	83447 (19.12)	18.30	436474 (100.00)	-1.66
2000-01	222325 (50.67)	-2.34	133515 (30.43)	-8.33	82910 (18.90)	17.54	438750 (100.00)	-1.15
2001-02	221090 (50.66)	-2.88	132494 (30.36)	-9.03	82826 (18.98)	17.42	436410 (100.00)	-1.67
2002-03	209986 (51.36)	-7.76	132756 (32.47)	-8.85	66071 (16.16)	-6.33	408813 (100.00)	-7.89
2003-04	213488 (51.85)	-6.22	131867 (32.03)	-9.46	66394 (16.12)	-5.88	411749 (100.00)	-7.23

Source: Economic Review - Various years (Figures in the parenthesis are percentage share of contribution)

** Calendar year*

Out of the total employment provided by the industrial sector of Kerala (Table 3.15) almost one-half was the contribution of the Southern region. When the Southern region contributed 49.96 percent during the year 1999-00, the Central region had a share of only 30.92 percent during the period. The Northern region recorded a very low share of 19.12 percent during the same period. Same is the case with the remaining years of the study. During the year 2003-04, out of the total employment provided, the share of the Southern region is more than one-half (51.85 percent) followed by the Central region (32.03 percent) and the Northern region with the lowest share (16.12 percent).

The volume of employment provided by the industrial sector declined at a rate faster than the rate at which the number of registered factories declined. All the three regions witnessed negative growth rates with the exception of the Northern region in the first three years (1999-00 to 2001-02). When the Southern and the Central regions showed almost gradual and steady decline, the Northern region witnessed heavy decline in the provision of employment opportunities. The more than proportionate decline in the provision of employment when compared to the decline in the number of factories may be due to more and more mechanisation of the manufacturing processes, up gradation of technology and increased utilisation of the existing manpower.

3.17 Conclusion

The discussion made so far reveals the fact that the Northern region fell backward when compared to the Southern and the Central regions in the matters of share of contribution in the State NDP, share of contribution of secondary sector in the State NDP, the growth rates in the above contributions, the share in the number of registered factories and the share in the provision of employment. This regional diversity in the industrial development of Kerala, the most significant feature of which is the comparative backwardness of the Northern region is the major reason for this study to concentrate on the industrial development of Northern Kerala.

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CHAPTER IV

KERALA FINANCIAL CORPORATION - AN OVERVIEW

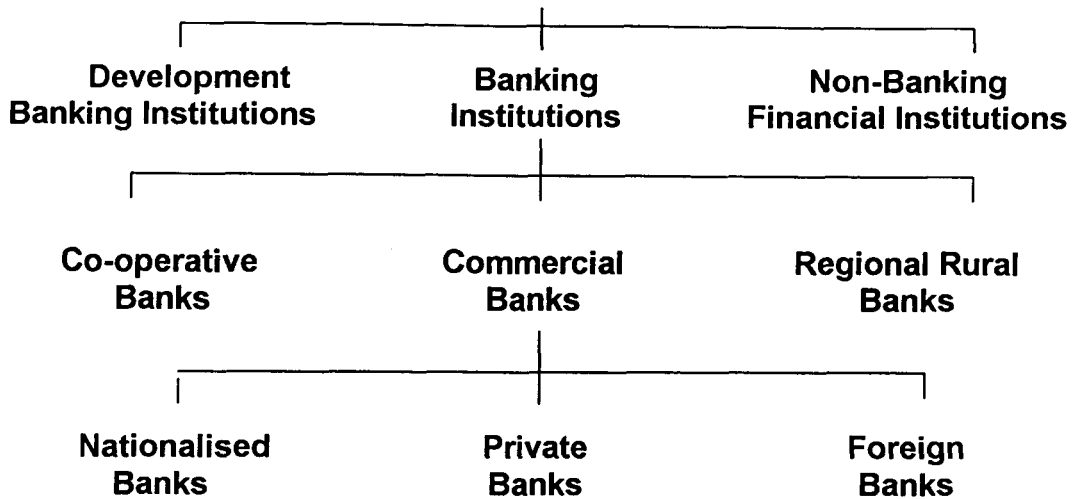
4.1 INTRODUCTION

The economic growth and development of any country depends to a great extent on the efficiency of a developed financial system. Growth of the financial sector is an indicator of the economic development of a country.

The Indian Financial sector (Figure 4.1) today comprises of an impressive network of financial institutions and a wide range of financial instruments. Out of these, provision of short-term credit is entrusted primarily to the commercial and co-operative banks. Besides performing these functions, commercial banks have, of late, diversified into several new areas of business such as merchant banking, mutual funds, leasing, venture capital, factoring and other financial services. On the other hand, development banks are concentrating their attention on long term lending, that too, for feeding the financial requirements of the industrial sector.

Figure 4.1

INDIAN FINANCIAL SECTOR



Source: SAWAN MALIK, PGP "The Indian banking institutions".
Project report; Indian Institute of Management, Ahamadabad, 1998 p.50

4.2 Emergence of Development Banks

The need for establishing financial institutions was felt in many countries immediately after the World War II in order to re-establish their war-shattered economies. In under developed countries the need for such institutions was much more due to a large number of organisational and financial problems inherent in the process of industrialisation.

As early as 1918, the industrial commission had recommended the establishment of an industrial financial institution in India. During the post-independence period, due to the peculiar characteristics inherent in the Indian economy, such as under-developed capital market, lack of entrepreneurship, etc., there existed gaps in the field of industrial finance, between the demand for and the supply of financial resources required by the Indian industries. The existing banks with their resources were unable to make advances to industries on a long-term basis. This led to the necessity of setting up special financial institutions also known as "Development

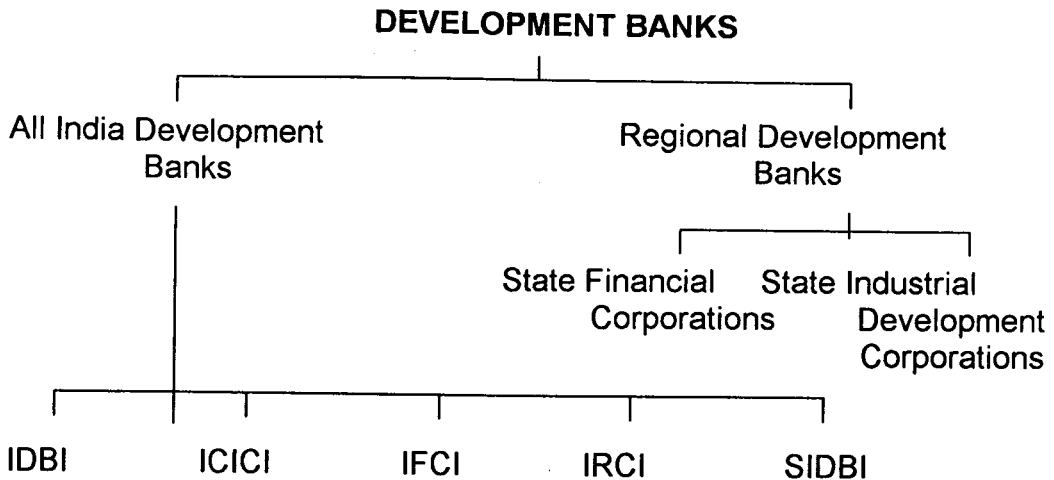
Banks” to fill the gap in the machinery of financing industrial development by ensuring adequate flow of funds to the industrial projects.

The idea of development banks has its origin in the urge in the backward and under developed countries to achieve quick economic growth. Under this urge a development bank was conceived as an instrument for promoting all round development, since they undertake both the banking functions as well as the development functions. On the development front, these institutions are under an obligation to play a promotional role in setting up new industrial projects, expansion and diversification, and for modernisation and renovation of existing units. Financial assistance is the primary task of these institutions.

The financial assistance of the development banks can be in different forms like equity participation, loans, guaranteeing deferred payments, etc. Managerial and technical know-how is also provided according to the requirements of the industrial units. A development bank must create for itself the image of an activist institution interested in the industrial development.

The structure of development banks in India is given in Figure 4.2*

Figure 4.2



Source: SAWAN MALIK, PGP "The Indian banking institutions ".
Project report; Indian Institute of Management, Ahamadabad, 1998 p.50

4.3 State Financial Corporations

The State Financial Corporations are State level financial institutions operating as regional development banks, which have been playing an effective role in the development of the small and medium enterprises. They play a very important role in determining the structure of Industry, ownership patterns of capital, dispersal of industries and subsequent benefit of industrial development in the concerned States.

An Act called State Financial Corporations Act was passed in the year 1951 for promoting the industrial entrepreneurship in all the States of India, leading to the success of industrial policy resolutions. This Act includes provisions for all the State Governments to give industrial credit. A few of the State Financial Corporations, besides covering their States in which they are set up, are also catering to the needs of the adjoining States/Union territories which do not have State Financial Corporations of their own. So far 18 State Financial Corporations have been established, out of which 17 have been set up under the State Financial Corporations Act. The Tamil Nadu Industrial

Investment Corporation Ltd. was set up in 1949 as a joint stock company under the Indian Companies Act 1913 and functions on the same lines as a State Financial Corporation.

The functions of the State Financial Corporations are almost similar to those of the Industrial Finance Corporation of India except that they deal largely with medium and small-scale industries in the respective States. Thus these institutions compliment the activities of the Industrial Finance Corporation of India. Under the Act, as amended by the State Financial Corporations (Amendment) Act 1985, the Corporation can provide assistance to industrial units whose paid up capital and reserves do not exceed Rs. three crores (or such higher limit up to Rs. 30 crores as may be specified by the Central Government).

The assistance of the State Financial Corporations to industrial units is mainly through loans, underwriting of shares, bonds and debentures and guaranteeing of deferred payments in respect of the purchase of capital goods in India. These Corporations are also entitled to act as agents of the respective State Governments, Industrial Development Bank of India, Industrial Finance Corporation of India or any other financial institution notified by the Governments concerned.

4.4 Kerala Financial Corporation

The Travancore Cochin Financial Corporation was established on December 1, 1953, under the State Financial Corporations Act 1951. This was later renamed as Kerala Financial Corporation consequent to the reorganisation of States in 1956. The Kerala Financial Corporation has its headquarters at Thiruvananthapuram, and has 16 branch offices covering all the districts of the State (Appendix-1). It has been conceived as a development bank for accelerating the pace of industrialisation in the State by providing financial assistance to the industrial sector.

The Kerala Financial Corporation aims at the industrialisation of Kerala by providing long term loans to start small and medium scale industrial units and also to expand / diversify and to modernise the existing industries. Of late, the Government of India has created a SME fund for making available credit to the Small and Medium Enterprise Sector for its development. The Corporation has approved the scheme in June 2004 whereby various facilities are offered to the new units including reduction of rate of interest to 9.5 per cent (net of rebate for prompt repayment). The Kerala Financial Corporation also acts as ISO 9001 certifying organisation.

Besides giving loans to the new / existing units for manufacturing and processing activities, the Kerala Financial Corporation also provides loans for the service sectors like tourism activities, hotels, hospitals, nursing homes, veterinary clinics, pharmacies, convention centers, commercial complexes, transportation services, mobile catering units etc. The Corporation also provides need-based working capital assistance to the small and medium scale industrial units. It extends its activities to cover the information technology and software development sector, technology development and modernisation of jute, textile industry, infrastructure development and so on.

National Equity Fund is another attractive scheme for small entrepreneurs for equity base support for the setting up of new industrial units and also for the rehabilitation of the existing units.

4.5 Objectives of the Kerala Financial Corporation

The State Financial Corporations Act and Rules do not clearly and systematically spell out the different objectives and functions of the Corporation. A close reading of the Act however would state the following as the objectives of the Corporation;

- To provide financial assistance to the small and medium scale industrial units on proper securities and thus to accelerate and support the industrialisation in the State.
- To encourage the potential entrepreneurs to start new industrial / business units with the financial support extended by the Corporation.
- To encourage the existing units to expand their projects through the Corporation's financial support and thus help them to exploit existing markets for the products and optimise the return of capital.
- To encourage the existing industrial units to diversify their products so as to avoid product obsolescence and loss of market.
- To encourage the new entrepreneurs to promote companies and raise capital by lending the name of the Corporation as under-writers.
- To act as liaison between the Industrial Development Bank of India and the local entrepreneurs, there by enabling the latter to get finance at reduced rates of interest.
- To act as agents between the Government of India and the entrepreneurs in respect of the disbursement of investment subsidy to the small-scale units.

4.6 Organisation and Management

The Head office of the Kerala Financial Corporation is located at Vellayambalam, Thiruvananthapuram. The Corporation has 16 branch offices, which cover all the districts in the State. There are two branch offices in the districts of Idukki and Ernakulam. The activities of the Corporation are managed by a Board of Directors comprising of nominees of the Government of Kerala, Industrial Development Bank of India, Reserve Bank of India, Scheduled Banks and the Insurance Companies.

The Board deals with all policy matters. It also deals with all proposals for loans above Rs. 120 lakhs each and assistance in the form of deferred payment guarantees and under-writing of shares. The Board reviews the activities of the Corporation, its progress, its resource position and related matters from time to time.

There is an executive committee of the Board whose chairman is the Managing Director who is the Chief Executive of the Corporation. The Corporation has a Secretary whose main function is to assist the Managing Director in all his responsibilities and also to look after the secretarial duties and functions relating to the Corporation

4.7 Share Capital

The share capital of Kerala Financial Corporation is contributed by the Government of Kerala, the Industrial Development Bank of India, Commercial Banks, Insurance Companies and Private Individuals. The capital structure of the Corporation as on 31-3-2004 is given in table 4.1

Table 4.1

Capital Structure of Kerala Financial Corporation

Sl. No	Share holders	Amount (Lakhs)	Percentage of holding
1.	Government of Kerala	13999	90.28
2.	IDBI	1483	9.56
3.	Commercial Banks, Insurance Companies etc.	22	0.14
4.	Private Individuals	2	0.02
	Total	15506	100

(Source: Annual Report KFC)

4.8 Units Eligible for Financial Assistance

The activities that qualify for financial assistance from the Corporation are the following:

- The manufacture, preservation or processing of foods.
- The mining or development of mines.
- The setting up or development of industrial area or industrial estate.
- Hospitals, Nursing homes, Veterinary clinics and Pharmacies.
- Activities relating to the marketing of SSI products.
- Information Technology and Software Development sector.
- Mobile catering units.
- Tourism and related activities.
- Hotels, Motels and Tourist Resorts.
- Acquisition of computers by the existing units.
- Acquisition of generator sets by the existing units.
- Scheme for the qualified professionals in the fields of Medicine, Finance, Engineering, Architecture etc. for the setting up of new ventures.
- Transporting services
- Shopping and Commercial complexes
- Construction of go-downs, Convention Centers, Kalyana Mandapam, Auditorium etc.
- Television serial production.
- Infrastructure projects like Information Technology Park, roads and bridges, parking facilities etc.
- ISO 9000 series certification programmes.

4.9 Eligibility for Financial Assistance

An essential requirement that an entrepreneur should have in order to avail financial assistance from the Kerala Financial Corporation is either a suitable industrial background or an industrial attitude. It would not be easy for a beginner to establish and manage an industry only on the strength that, he possesses sufficient funds. The promoter of an industry shall fulfill one or more of the following conditions:

- It will be very advantageous if the entrepreneur has sufficient experience in the lines of business he wishes to start. Practical experience naturally overweighs almost all other qualities required for an entrepreneur. The experience in the technical and administration aspect of the business will help the entrepreneur in taking decisions especially in the case of small-scale industries. His previous experience will give him greater confidence in tackling different problems as they arise from time to time.
- The technically qualified persons need not have the desired know-how in all the related fields. Such a person may have an overall knowledge of the general fields. The methods, processes and procedures are different in different types of industries. For such an individual, it will be quite useful if he has specialised knowledge in the technical aspects of the proposed project.
- One of the major reasons for failure of industries is the lack of efficient management. Managers have to take quick decisions in critical situations. A reasonably high level of managerial ability will help the entrepreneurs to plan, organise, direct and control the activities of his enterprise with high degree of competence.

4.10 Financing Pattern and Security

Kerala Financial Corporation do not have the practice of giving hundred percent of the capital requirements of an industrial concern. The

Corporation follows a policy of keeping a balance between its own advance and the promoter's contribution, depending on the schemes and nature of the concern. The funds to be raised by the promoter(s) as capital are called the promoters contribution. The Corporation prescribes a minimum contribution from the entrepreneurs. Depending upon the scheme, the contribution ranges from ten percent to forty percent of the project cost. It also stipulates the margin for the industrial assets from fifteen percent to fifty percent depending upon the class of assets. Industrial assets that are through the loan will form the principal security. The Corporation also stipulate for collateral cover while granting loans for working capital, shopping complexes, vehicles, electronic equipments, stone crushing units, ice plants and similar units and also for the units functioning in rented premises or in the industrial estates / development plots. The degree of collateral cover varies with the promoter's contribution and the type of project.

The maximum limit of financial assistance is Rs. 20 crores for corporations / companies / co-operative societies. The limit has been fixed at Rs. 8 crores for proprietorship concerns and partnership firms.

The Kerala Financial Corporation has schemes of take-over of loans from other institutions. In such cases the Corporation will make sure that the promoters are credit-worthy and the dealings with the institution are satisfactory. Generally Non-Performing Assets (NPA) of other banks / institutions are not taken over.

4.11 Lending Proceedings

The Kerala Financial Corporation starts its lending operations to a promoter by receiving a properly filled-in application. The Corporation has a printed format that incorporates all the essential details of the project and the promoter.

Once an application in the proper form is received along with the specified set of documents, it is processed at the district office. The project is appraised in different stages. The applicant is called for a preliminary interview. The interview is conducted by a task force of the Corporation consisting of the District Manager and representatives from the technical, general and legal sections. The viability of the project is verified by the meeting. If the project is found to be technically feasible, financially viable and if the legal documents satisfy the requirements as stipulated by the Corporation, the loan will be sanctioned.

All loan applications are processed at the district office itself. The applications for loans submitted to the head office are placed with their notes in the screening committee to assess the prima-facie viability of the project. The screening committee comprises of the Managing Director, General Manager, Deputy General Manager and the Senior Managers in the Appraisal and Disbursement division.

4.12 Disbursement of Loans

Generally, the term loan sanctioned is disbursed in different installments. The purposes for which the loan should be utilised such as for the construction of building, acquisition of plant and machinery etc. will be as per the terms and conditions stipulated in the loan sanction communication.

Usually the installments of the loan are disbursed as according to the progress in the promotional sequence. At every stage of disbursement the debt-equity ratio will be maintained at the stipulated levels. This will ensure the timely contribution of promoters at each and every stage. The Corporation will complete the disbursement only after the promoter has brought in his contribution completely.

4.13 Recovery of Loans

The loan agreement between the Kerala Financial Corporation and the promoter will contain the conditions of repayment of the principal and

also the monthly or half-yearly installments of interest. Penal interest will be attracted at two percent for the defaulted amount for the defaulted period. The borrowers may remit the amounts by cash or cheque or demand draft in any of the district offices of the corporation. The recovery officers of the corporation visit the units frequently as part of the steps for ensuring timely repayment of the loans.

The Corporation has the power to allow more time to such units who make default in their repayment due to genuine reasons. In cases of willful default, the Corporation initiates coercive actions under sec. 31 or sec. 29 of the State Financial Corporations Act 1951 or under the provisions of the Kerala Revenue Recovery Act, 1968.

Under Sec. 31 of State Financial Corporations Act, the Corporation files a suit before the District Court within the limits of whose jurisdiction the industrial unit is located, for the sale of the property mortgaged to the Corporation or the transfer of the management of the unit to the Corporation or for an interim injunction restraining the industrial concern from transferring or moving its assets from the premises or for enforcing the liability of any security. All the expenses / costs relating to such proceedings will be charged to the defaulters loan account.

In cases of willful default, the Corporation may take action under Sec. 29 of the Act. Under this provision, the defaulted unit is taken over by the Corporation. Even after take over, if the defaulters remit the pending dues, the Corporation may release the unit to the proprietor. If this does not happen, the unit will be offered for sale by public auction.

When the value realised by sale of the unit is insufficient to clear the loan amount, the Corporation may proceed against the defaulters for the realisation of the balance amount under the provisions of Sec.31 of the Kerala Revenue Recovery Act. The expenses incurred by the Corporation for the take over, interest accrued during the period of custody, expenses, if any, on repairs and maintenance of the building or machinery, insurance

premium paid, the remuneration of the security personnel posted during the period of custody, the advertisement charges for notifying the sale, etc. will be debited to the loan account.

Under the provision of Kerala Revenue Recovery Act, the Corporation sends a revenue recovery requisition to the District Collector, Thiruvananthapuram, to initiate revenue recovery actions against the defaulters. Revenue recovery steps are taken by the officers of the revenue department including the Deputy Tahasildars of Thiruvananthapuram, Kollam, Kottayam, Alappuzha, Ernakulam, Thrissur, Malappuram, Palakkad and Kozhikode who have been specially posted for the Kerala Financial Corporation's dues. All the expenses incurred in connection with the revenue recovery proceedings are debited in the concerned loan account of the defaulter.

4.14 Interest Rate Structure

The rate of interest charged by the Corporation on loans is different for different schemes and different amounts of loan. It ranges from 8.25 percent to 11.50 percent.

4.15 Project Report

One of the essential documents that the Kerala Financial Corporation insists from an applicant, along with the loan application is the project report. The project report gives a detailed description relating to the location details, financial, technical and marketing viability of the project, etc.

4.16 Processing Fee

The Kerala Financial Corporation is charging loan-processing fees from the applicants in the following manner:

Table 4.2

Processing Fee Charged by Kerala Financial Corporation

Loan sanctioned up to Rs. 2 crores	- 0.50 percent of loan sanctioned
Loan sanctioned above Rs. 2 crores	- Rs. One lakh plus 0.25 percent of the amount exceeding Rs. 2 crores

(Source: Records, KFC)

4.17 Schemes in Operation

The financing schemes of different nature are in force in the case of Kerala Financial Corporation. A detailed list of the schemes in force at present is given in appendix: II

4.18 Financial Assistance by KFC over the Study Period (1999-04)

The financial assistance made by the Kerala Financial Corporation to the industrial sector (including services) is studied from three different but interrelated angles, namely (1) the number and the amount of loan applications received (2) the number and the amount of loans sanctioned and (3) the number and the amount of loans disbursed during the study period (1999-2004).

Table 4.3 presents the details of the number and the amount of loan applications received and their growth rates, the number and the amount of loans sanctioned and their growth rates and the number and the amount of loans disbursed and their growth rates over the period 1999-2004. The growth rates are measured taking 1998-99 as the base year.

Table 4.3
Financial operations of KFC during 1999-04

		1999-00	2000-01	2001-02	2002-03	2003-04
Application received	Number	1746	2281	1297	793	598
	GR	-17.60	7.65	-38.79	-62.58	-71.78
	Amount	20150.1	37401.0	22765.8	20865.2	19789.2
	GR	-26.38	36.65	-16.82	-23.76	-27.70
Loan sanctioned	Number	1556	2077	1130	696	581
	GR	-23.84	1.66	-44.69	-65.93	-71.56
	Amount	16205.1	29246.0	16381.8	15572.6	16958.0
	GR	-22.72	39.47	-21.88	-25.74	-19.13
Loan disbursed	Number	1651	2225	1995	648	458
	GR	-13.74	16.25	4.23	-66.14	-76.07
	Amount	14971.5	22689.4	17593.6	11230.8	11902.2
	GR	-21.67	18.71	-7.95	-41.24	-37.73

(Source: Annual Report, KFC)

4.18.1 Number of Loan Applications

Table 4.3 shows that the number of loan applications received by Kerala Financial Corporation during the study period 1999-2004 sharply declined except during the year 2000-01. The number of applications received increased from 1746 (1999-00) to 2281 (2000-01) recording a growth rate of 7.65 percent. However this sharp increase could not be sustained during the remaining three years (2001-04). On the contrary, the number of applications sharply declined from 2281 (2000-01) to 1297 (2001-02) and to a very low level of 598 numbers (2003-04), recording minus growth rates of 38.79 percent and 71.78 percent respectively.

4.18.2 Amount of Loan Applications

The amount of loan applied for, from the Kerala Financial Corporation during the period 1999-2004 showed a more or less stable trend with the exception of the year 2000-01. The amount of loan applied for sharply increased from Rs.20150.10 lakhs during the year 1999-2000 to Rs.37401.00 lakhs during the year 2000-01 recording an increase of 36.65 percent. However the amount of loans applied for during the year 2001-02 declined to Rs.22765.80 lakhs recording a minus growth rate of 16.82 percent. In the remaining two years also the amount of loans applied for declined recording minus growth rates of 23.76 percent and 27.70 percent.

The amount of loans applied for from the Kerala Financial Corporation has shown only marginal decrease when compared to the decline in the number of applications. This discloses the declining trend from the part of the prospective entrepreneurs in approaching the Corporation for financial assistance and the policy of the Corporation to concentrate more on the loans of higher amount.

4.18.3 Number of Loans Sanctioned

The number of loans sanctioned by the Kerala Financial Corporation (Table 4.3) during the study period (1999-04) shows a similar trend as in the case of the number of applications received. The number of loans sanctioned during the year 1999-00 was 1556 that is 23.84 percent less than the base year (1998-99). However the increase in the number of loans sanctioned during the year 2000-01 (2077) was very high compared to that of the year 1999-00 (1556) even though the growth rate is very low (1.66 percent). The number of loans sanctioned during the remaining three years showed heavy decline recording minus growth rates of 44.69 percent (2001-02), 65.93 percent (2002-03) and 71.56 percent (2003-04).

4.18.4 Amount of Loans Sanctioned

The amount of loans sanctioned during the period 1999-2004 showed a more or less stable picture except during 2000-01, when the amount of loans sanctioned was at the peak (Rs.29246 lakhs) recording a growth rate of 39.47 percent. During the remaining four years, the amount of loans sanctioned shows small ups and downs. Analysis reveals that the amount of loans sanctioned did not show a steep decline corresponding to the decline in the number of loans sanctioned.

4.18.5 Number of Loans Disbursed

Table 4.3 further shows that the number of loans disbursed during the period of study declines. During the year 1999-00 it recorded a negative growth rate of 13.74 percent (1651 loans) and then goes up considerably (2225 loans) during the year 2000-01 recording a growth of 16.25 percent. After showing a positive growth rate of 4.23 percent during the year 2001-02, the number of loans disbursed steeply falls down (648 loans) showing minus 66.14 percent growth (2002-03) and minus 76.07 percent growth (2003-04).

4.18.6 Amount of Loans Disbursed

From Table 4.3, it can also be seen that the amount of loans disbursed during the study period (1999-2004) declined except during the year 2000-01. The amount of loans disbursed sharply increased from Rs.14971.50 lakhs during the year 1999-00 to Rs.22689.40 lakhs during the year 2000-01 recording a growth rate of 18.71 percent. Thereafter the amount of loans disbursed sharply comes down recording minus growth rates of 7.95 percent, 41.24 percent and 37.73 percent during the years 2001-02, 2002-03 and 2003-04 respectively.

All the three indicators of the financial operations of Kerala Financial Corporation, namely, the number and the amount of loan applications received, the number and the amount of loans sanctioned and the number

and the amount of loans disbursed as explained by table 4.3 shows more or less similar trends. However the fall in the amount of loans in all the above three cases is comparatively lower than the fall in the number of loans. This indicates a policy change in the lending operations of the Corporation towards bigger and safer loans from the smaller and risky loans.

4.19 Amount-wise Distribution of the Number of Loans Sanctioned

Table 4.4 presents the amount-wise distribution of number of loans sanctioned by the Kerala Financial Corporation during the study period. Analysis shows that out of the total applications received; majority falls in the three categories of Rs. two to five lakhs, Rs. five to ten lakhs and Rs. 10 to 20 lakhs. During the year 1999-2000, out of the 1556 applications received, 67.35 percent is belonged to these three categories. Similarly, during the years 2000-01 to 2003-04, the above three categories contributed 68.99 percent, 58.45 percent, 65.09 percent and 65.44 percent respectively. Within these categories small loans of Rs. two to five lakhs was mostly demanded from the part of the entrepreneurs during the years 1999-00, 2000-01 and 2001-02. However during the years 2002-03 and 2003-04 demand for loans of Rs. five to ten lakhs categories has recorded the maximum (22.99 percent and 24.21 percent). Analysis also reveals that, year-by-year the demand for loans of larger amounts goes up and the demand for loans of smaller amounts comes down. The share of loans up to Rs. 50,000 during the year 1999-00 was 1.54 percent, which declined to nil during the year 2003-04. On the contrary, the share of demand for loans falling in the category of above Rs.90 lakhs was only 0.84 percent during the year 1999-00 which steadily increased to 6.32 percent during the year 2003-04.

Table 4.4

Amount- wise distribution of number of loans sanctioned by KFC during 1999-04

Amount (in Rs)	1999-00		2000-01		2001-02		2002-03		2003-04	
	No	GR	No	GR	No	GR	No	GR	No	GR
Up to 50000	24 (1.54)	14.29	13 (0.63)	-38.10	33 (2.98)	57.14	6 (0.86)	-71.43	0 (0.00)	-100
50001- 100000	100 (6.43)	-33.33	93 (4.48)	-38.00	94 (8.49)	-37.33	21 (3.02)	-86.00	12 (2.11)	-92.00
100001- 200000	211 (13.56)	-32.37	197 (9.48)	-36.86	160 (14.45)	-48.72	59 (8.48)	-81.09	30 (5.26)	-90.38
200001- 500000	550 (35.35)	-12.28	657 (31.63)	4.78	272 (24.57)	-56.62	151 (21.70)	-75.92	115 (20.18)	-81.66
500001- 1000000	373 (23.97)	-16.18	543 (26.14)	22.02	258 (23.31)	-42.02	160 (22.99)	-64.04	138 (24.21)	-68.99
1000001- 2000000	125 (8.03)	-38.42	233 (11.22)	14.78	117 (10.57)	-42.36	142 (20.40)	-30.05	120 (21.05)	-40.89
2000001- 3000000	53 (3.41)	-10.17	112 (5.39)	89.83	78 (7.05)	32.20	37 (5.32)	-37.29	57 (10.00)	-3.39
3000001- 4000000	38 (2.44)	-5.00	62 (2.99)	55.00	40 (3.61)	0	36 (5.17)	-10.00	16 (2.81)	-60.00
4000001- 5000000	49 (3.15)	-5.77	85 (4.09)	63.46	20 (1.81)	-61.54	31 (4.45)	-40.38	22 (3.86)	-57.69
5000001- 6000000	4 (0.26)	-33.33	10 (0.48)	66.67	3 (0.27)	-50.00	6 (0.86)	0	10 (1.75)	66.67
6000001- 9000000	16 (1.03)	-38.46	28 (1.35)	7.69	16 (1.45)	-38.46	12 (1.72)	-53.85	14 (2.46)	-46.15
Above 9000000	13 (0.84)	-35.00	44 (2.12)	120	16 (1.45)	-20.00	35 (5.03)	75.00	36 (6.32)	80.00
Total	1556 (100.0)		2077 (100.0)		1107 (100.0)		696 (100.0)		570 (100.0)	

(Source: Annual Report, KFC)

Figure in parenthesis is percentage share.

Table 4.4 also reveals the growth rate in the number of loan applications received by the Kerala Financial Corporation during the period 1999-04 falling in different amount categories. The general trend is that in the case of loans of small amounts, the decline in growth rate is gradually and steadily taking place. The growth rate in the case of loans below Rs.50,000 falls from 14.29 to during the year 1999-00 to minus 100 percent during the year 2003-04. This trend prevails in the categories of loans up to Rs. 50 lakhs with slight increases during some years. In the case of loans of higher amounts growth is visible over the period of study, of course with slight ups and downs during some years. The growth rates of the year 2000-01 shows variations in almost all categories of loans compared to the general trend. All these figures indicate a trend of increase in the demand for loans of higher amount and decline in the demand for loans of smaller amount from the part of borrowers of the Corporation.

4.20 Amount-wise Distribution of the Amount of Loans sanctioned

Table 4.5 shows the amount-wise distribution of the amount of loans sanctioned by the Kerala Financial Corporation over the study period (1999-04). Throughout the period of study the trend is increase in the share of loans of higher amount and decrease in the share of loans of smaller amount. The percentage share of loans below Rs. two lakhs declined from 2.81 percent during the year 1999-00 to 0.37 percent during the year 2003-04. On the other hand the percentage share of loan amounts exceeding Rs. 90 lakhs increased from 12.59 percent (1999-00) to 52.95 percent (2003-04). The increase in the percentage share of bigger loans is comparatively much higher than that of the increase in the percentage share of the smaller loans given by the Corporation.

Table 4.5

Amount- wise distribution of amount of loans sanctioned by KFC during 1999-04 (Rs. In lakhs)

Amount	1999-00		2000-01		2001-02		2002-03		2003-04	
	Amount	GR	Amount	GR	Amount	GR	Amount	GR	Amount	GR
Up to 50000	8.66 (0.05)	12.47	5.42 (0.02)	-29.61	13.04 (0.08)	69.35	3.06 (0.02)	-60.26	0 (0.00)	-100
50001-100000	79.42 (0.49)	-28.84	70.03 (0.24)	-37.25	84.49 (0.53)	-24.29	18.23 (0.12)	-83.66	10.34 (0.06)	-90.73
100001-200000	367.94 (2.27)	-33.73	335.65 (1.15)	-39.54	329.36 (2.05)	-40.68	100.93 (0.65)	-81.82	51.61 (0.31)	-90.70
200001-500000	2196.35 (13.55)	1.23	2507.77 (8.57)	15.59	1583.74 (9.88)	-27.00	567.57 (3.65)	-73.84	446.51 (2.66)	-79.42
500001-1000000	2939.19 (18.14)	-11.90	4199.5 (14.36)	25.87	2650.05 (16.53)	-20.57	1186.91 (7.63)	-64.42	984.88 (5.86)	-70.48
1000001-2000000	2085.83 (12.87)	-30.74	3476.72 (11.89)	15.44	2126.88 (13.27)	-29.38	2156.9 (13.86)	-28.38	1785.23 (10.63)	-40.72
2000001-3000000	1523.92 (9.40)	-5.60	2887.44 (9.87)	78.87	2169.21 (13.53)	34.37	949.8 (6.10)	-41.16	1387.51 (8.26)	-14.05
3000001-4000000	1340.49 (8.27)	-7.73	2222.79 (7.60)	53	1452.97 (9.06)	0.01	1281.96 (8.24)	-11.76	586.49 (3.49)	-59.63
4000001-5000000	2368.52 (14.62)	-6.11	4103.86 (14.03)	62.68	968.8 (6.04)	-61.60	1456.17 (9.36)	-42.28	1044.7 (6.22)	-58.59

Amount	1999-00		2000-01		2001-02		2002-03		2003-04	
	Amount	GR	Amount	GR	Amount	GR	Amount	GR	Amount	GR
5000001-6000000	205.62 (1.27)	-38.2	585.34 (2.00)	75.94	180 (1.12)	-45.90	350.65 (2.25)	5.40	579.5 (3.45)	74.18
6000001-9000000	1049.66 (6.48)	-45.12	2112.46 (7.22)	10.45	1199 (7.48)	-37.31	985 (6.33)	-48.50	1025.5 (6.11)	-46.38
Above 9000000	2039.5 (12.59)	-32.11	6739 (23.04)	124.33	3272 (20.41)	8.92	6501.85 (41.79)	116.44	8892.01 (52.95)	196.01
Total	16205.1 (100.0)		29245.9 (100.0)		16029.5 (100.0)		15559.1 (100.0)		16794.3 (100.0)	

(Source: Annual Report, KFC)

Figure in parenthesis is percentage share.

Table 4.5 also shows the growth rates in the amount-wise distribution of the amount of loans sanctioned by Kerala Financial Corporation over the period 1999-2004. The growth rate also reveals a similar trend as in the case of percentage share of amount of loans sanctioned. When the rate of growth in the case of loans of Rs. one lakh to Rs. two lakhs declined from minus 33.73 percent during the year 1999-00 to minus 90.70 percent during the year 2003-04 the growth rate in the case of loans above Rs. 90 lakhs increased from minus 32.11 percent to a very high rate of 196.01 percent during the same period.

The overall picture given by table 4.5 is that, while the loans of smaller amount given by Kerala Financial Corporation has declined over time, there is tremendous growth in the case of loans of higher amount. This indicates a shift in the policy of the Corporation towards giving stress on sound and larger loans rather than weak and smaller ones.

4.21 Industry-wise Distribution of the Loans Sanctioned.

Table 4.6 shows the industry-wise distribution of the loans sanctioned by the Kerala Financial Corporation over the study period (1999-2004). As the Corporation has included the business units that are providing service within the definition of industries for the purpose of providing financial assistance, the analysis does not make any differentiation between industries and services.

Table 4.6

Industry - wise distribution of amount of loans sanctioned by KFC during 1999-04 (Rs. In lakhs)

	1999-00		2000-01		2001-02		2002-03		2003-04	
	Amount	GR	Amount	GR	Amount	GR	Amount	GR	Amount	GR
1	559.1 (3.45)	-49.58	1332.6 (4.56)	20.18	248.2 (1.55)	-77.62	547.6 (3.52)	-50.61	1069.7 (6.37)	-3.53
2	1.2 (0.01)	0	0 (0.00)	0	0 (0.00)	0	12 (0.08)	0	0 (0.00)	0
3	1509 (9.31)	-29.15	2495.2 (8.53)	17.16	2052.8 (12.81)	-3.62	1555.3 (10.00)	-26.97	1044.5 (6.22)	-50.96
4	173.2 (1.07)	-42.67	529.2 (1.81)	75.17	792.9 (4.95)	162.46	1628.8 (10.47)	439.16	212.3 (1.26)	-29.73
5	167.4 (1.03)	-67.73	928 (3.17)	78.91	563.1 (3.51)	8.56	615.9 (3.96)	18.74	398.8 (2.37)	-23.12
6	0.91 (0.01)	-86.6	110.4 (0.38)	1525.92	110 (0.69)	1520.03	0 (0.00)	-100	0 (0.00)	-100
7	670.93 (4.14)	-12.32	1992.9 (6.81)	160.45	676.7 (4.22)	-11.56	804.6 (5.17)	5.15	812.6 (4.84)	6.2
8	398.3 (2.46)	11.63	793.9 (2.71)	122.51	414 (2.58)	16.03	391.2 (2.51)	9.64	348.4 (2.07)	-2.35
9	95.35 (0.59)	-59.5	236.9 (0.81)	0.62	472.4 (2.95)	100.64	212 (1.36)	-9.96	1575.36 (9.38)	569.08
10	78.2 (0.48)	-66.26	268.3 (0.92)	15.75	88.1 (0.55)	-61.99	161.5 (1.04)	-30.33	0 (0.00)	-100
11	157.5 (0.97)	-10.66	865.3 (2.96)	390.81	725 (4.52)	311.23	196.2 (1.26)	11.29	270.4 (1.61)	53.37
12	9874.96 (60.94)	-9.09	15943.4 (54.51)	46.77	7965.3 (49.69)	-26.67	7736.8 (49.73)	-28.78	9579.76 (57.04)	-11.81
13	2495.8 (15.40)	-25.19	3699.8 (12.65)	10.9	1921.1 (11.98)	-42.42	1697.5 (10.91)	-49.12	1481.9 (8.82)	-55.58
Total	16205.1 (100.0)	-19.1	29245.9 (100.0)	46	16029.5 (100.0)	-19.98	15559.1 (100.0)	-22.32	16794.3 (100.0)	-16.16

1 = Mining 2 = Crude petroleum 3 = Food products 4 = Textiles
 5 = Paper & paper products 6 = Leather & leather products 7 = Rubber products
 8 = Chemical & chemical products 9 = Basic metals 10 = Metal products
 11 = Capital goods 12 = services 13 = Others

(Source: Annual Report, KFC)

(Figures in parenthesis is percentage share)

Out of the total financial assistance of Rs. 16205.10 lakhs (Table 4.6) made by Kerala Financial Corporation during the year 1999-00, 9.31 percent was given to Food Products, 4.14 percent to Rubber and Rubber-based Products, 60.94 percent to services and 15.40 percent to other industries. There were irregular ups and downs in both the cases of percentage share of amount of loan sanctioned and growth rates in the amount of loans sanctioned to different industries over the period 1999-04. There were no wide fluctuations in the percentage share of loans sanctioned to different industries between the years of study. The share of each industry in the total amount of loan remains almost stagnant throughout the period (1999-2004).

However, a comparison of the share of different industries in the total amount of loans sanctioned by the Corporation shows that the major share of loans go to Mining, Food Products, Rubber and Rubber-based Products, Services and Others. According to the establishment of large industries in a particular industry in a particular year with the financial assistance of the Corporation, both the percentage share of amount of loan sanctioned and the growth rate in the amount of loan sanctioned fluctuates considerably throughout the period.

4.22 Regional Variations in the Financial Assistance of the Corporation

A comparative study of the three regions namely the Southern, the Central and the Northern regions in the matter of financial performance of the Kerala Financial Corporation is given in tables 4.7 to 4.12. This is studied from three different but inter-related angles such as the number and the amount of loan applications received, the number and the amount of loans sanctioned and the number and the amount of loans disbursed by the Corporation during the period 1999-2004.

4.22.1 Number of Applications Received

Table 4.7 shows that there is a drastic decline in the growth rate in the number of loan applications received by Kerala Financial Corporation in all the three regions throughout the study period except during the year 2000-01. In 2000-01 there were positive growth in the Southern, the Central and the Northern regions of 11.18 percent, 5.56 percent and 4.3 percent respectively. However the growth rate of the Southern region in the number of loan applications received declined to minus 84.04 percent, that of Central region to minus 55.48 percent and that of Northern region to minus 69.09 percent over the period 1999-04.

Table 4.7
Number of application received by KFC during 1999-2004

Region	1999-00		2000-01		2001-02		2002-03		2003-04	
	No	GR	No	GR	No	GR	No	GR	No	GR
South	699 (40.03)	-24.10	1024 (44.89)	11.18	522 (40.25)	-43.32	223 (28.12)	-75.79	147 (24.58)	-84.04
Central	435 (24.91)	-26.64	626 (27.44)	5.56	379 (29.22)	-36.09	349 (44.01)	-41.15	264 (44.15)	-55.48
North	612 (35.05)	1.16	631 (27.66)	4.30	396 (30.53)	-34.55	221 (27.87)	-63.47	187 (31.27)	-69.09
Total	1746 (100.00)	-17.60	2281 (100.00)	7.65	1297 (100.00)	-38.79	793 (100.00)	-62.58	598 (100.00)	-71.78

(Source: Annual Report, KFC)

(Figures in parenthesis is percentage share)

An inter-regional comparison of the percentage share of the three regions in the case of number of applications received reveals that, there is a declining trend in the case of the Southern region, an increasing trend in the Central region and more or less stable (with slight variations) in the Northern region.

4.22.2 Amount of Applications Received

Table 4.8 shows the regional distribution of the amount of loans applied for from the Kerala Financial Corporation during 1999-2004. It indicates that the percentage share of the amount of loan applications received in the Northern region declined at a faster rate when compared to the Southern and the Central regions. It declined from 27.37 percent during the year 1999-00 to a very low share of 15.73 percent during the year 2003-04. On the contrary, the share of the Central region increased from 35.97 percent to a good position of 60.83 percent during the same period. However the share of Southern region in the amount of loan applications received went down from 36.66 percent (1999-00) to 23.44 percent (2003-04).

Table 4.8
Amount of application received by KFC during 1999-2004 (Rs. In lakhs)

Region	1999-00		2000-01		2001-02		2002-03		2003-04	
	Amount	GR	Amount	GR	Amount	GR	Amount	GR	Amount	GR
South	7386.87 (36.66)	-26.64	13406.7 (35.85)	33.15	7891.6 (34.66)	-21.62	6468.4 (31.01)	-35.76	4639.6 (23.44)	-53.92
Central	7247.7 (35.97)	-39.22	15806.7 (42.26)	32.55	9387 (41.23)	-21.28	11313.3 (54.23)	-5.13	12037.6 (60.83)	0.94
North	5515.5 (27.37)	2.60	8187.6 (21.89)	52.31	5487.3 (24.10)	2.08	3079.7 (14.76)	-42.71	3112.1 (15.73)	-42.11
Total	20150.07 (100.00)	-26.38	37401 (100.00)	36.65	22765.9 (100.00)	-16.82	20861.4 (100.00)	-23.78	19789.3 (100.00)	-27.70

(Source: Annual Report, KFC)

(Figures in parenthesis is percentage share)

Table 4.8 also explains the growth rate in the amount of loan applications received by Kerala Financial Corporation in the three regions during the period 1999-04. There was a general trend of decline in growth rate in the amount of loan applications received in all the three regions throughout the period of study except during 2000-01. When the growth rate in the amount of loan applications in the Central Region shows a slight increase of 0.94 percent, the growth rates of the Southern and the Northern regions were minus 53.92 percent and minus 42.11 percent respectively during the period 2003-04.

4.22.3 Number of Loan Applications Sanctioned

The number of loan applications sanctioned (Table 4.9) by Kerala Financial Corporation in the three regions over the period of study (1999-04) declined except during the year 2000-01. Comparison of the percentage share of the three regions in the matter of total number of loan applications sanctioned reveals that the Central Region gains, the Southern region lose and the Northern region does not gain or lose much.

Table 4.9
Number of loan application sanctioned by KFC during 1999-2004

Region	1999-00		2000-01		2001-02		2002-03		2003-04	
	No	GR	No	GR	No	GR	No	GR	No	GR
South	628 (40.36)	-29.28	944 (45.45)	6.31	441 (39.84)	-50.34	203 (31.28)	-77.14	128 (22.50)	-85.59
Central	361 (23.20)	-35.07	539 (25.95)	-3.06	332 (29.99)	-40.29	241 (37.13)	-56.65	268 (47.10)	-51.80
North	567 (36.44)	9.67	594 (28.60)	14.89	334 (30.17)	-35.40	205 (31.59)	-60.35	173 (30.40)	-66.54
Total	1556 (100.00)	-20.65	2077 (100.00)	5.92	1107 (100.00)	-43.55	649 (100.00)	-66.90	569 (100.00)	-70.98

(Source: Annual Report, KFC)

(Figures in parenthesis is percentage share)

However the growth rates of different regions in the matter of number loan applications sanctioned by Kerala Financial Corporation indicates that there is heavy decline in all the three regions. When the Southern Region showed a decline in growth rate in the number of loan applications received from minus 29.28 percent during the year 1999-00 to minus 85.59 percent during the year 2003-04, the Central and Northern Regions records a decline from minus 35.07 percent to minus 51.80 percent and from 9.67 percent to minus 66.54 percent respectively during the same period.

4.22.4 Amount of Loan Sanctioned

The amount of loans sanctioned (Table 4.10) by Kerala Financial Corporation draws a favorable picture for the Central Region and adverse picture for both the Southern and the Northern Regions over the period (1999-04). The percentage share of the Central Region in the total amount of loans sanctioned by the Corporation increased year after year, from 32.19 percent during the year 1999-00 to 61.25 percent during the year 2003-04. The share of the Southern Region in the total amount of loans sanctioned steadily declined from 39.31 percent to 22.44 percent during the same period. The decline was high in the Northern Region, which fell from 28.50 percent (1999-00) to 16.31 percent (2003-04). These figures clearly indicate that the Northern Region suffered a heavy set back in its share of the amount of loan given by Kerala Financial Corporation.

Table 4.10
Amount of loan sanctioned by KFC during 1999-2004 (Rs. In lakhs)

Region	1999-00		2000-01		2001-02		2002-03		2003-04	
	Amount	GR	Amount	GR	Amount	GR	Amount	GR	Amount	GR
South	6369.3 (39.31)	-23.59	11241.6 (38.44)	34.87	5305.2 (33.10)	-36.35	4711 (30.28)	-43.48	3768.6 (22.44)	-54.79
Central	5216.8 (32.19)	-32.05	11289.35 (38.60)	47.04	7489.55 (46.72)	-2.45	8453.5 (54.33)	10.10	10286.2 (61.25)	33.98
North	4618.1 (28.50)	14.93	6715.29 (22.96)	67.13	3235.08 (20.18)	-19.49	2394.8 (15.39)	-40.40	2739.6 (16.31)	-31.82
Total	16204.2 (100.00)	-19.10	29246.24 (100.00)	46.00	16029.83 (100.00)	-19.98	15559.3 (100.00)	-22.32	16794.4 (100.00)	-16.16

(Source: Annual Report, KFC)

(Figures in parenthesis is percentage share)

The growth rate (Table 4.10) in the amount of loans sanctioned also reveals the same pattern as the case of percentage share in the amount of loans sanctioned in the three regions over the period 1999-04. Only the Central Region showed growth in the amount of loans sanctioned. The Southern and Northern Region recorded negative growth rate in almost all years under the study.

4.22.5 Number of Loans Disbursed

Table 4.11 shows the regional distribution of the number of loans disbursed by Kerala Financial Corporation during the period 1999-04. During the year 1999-00, the first year of the period of study, the share of the Central Region was the lowest with 22.59 percent compared to 39.92 percent of the Southern Region and 37.49 percent of the Northern Region. However the share of the Central region increased steadily over the five year period (1999-04) to 43.01 percent leaving the Northern and Southern regions behind with shares of 34.28 percent and 22.71 percent respectively.

Although the rate of growth in the number of loans disbursed increased during the year 2000-01 in all the three regions, from the year 2001-02 onwards it started declining steeply. The decline was from -22.92 percent during the year 1999-00 to a low rate of -87.84 percent during the year 2003-04 in the Southern region. The decline of the Central and the Northern Regions were from -26.72 percent to -61.30 percent from 12.55 percent to -71.45 percent respectively. Except during the year 2000-01, all the three regions, in almost all the remaining years recorded negative growth rates in the case of number of loans disbursed.

Table 4.11
Number of loans disbursed by KFC (1999-2004)

Region	1999-00		2000-01		2001-02		2002-03		2003-04	
	No	GR	No	GR	No	GR	No	GR	No	GR
South	659 (39.92)	-22.92	1002 (45.03)	17.19	919 (46.07)	7.49	203 (31.38)	-76.26	104 (22.71)	-87.84
Central	373 (22.59)	-26.72	654 (29.39)	28.49	601 (30.13)	18.07	244 (37.71)	-52.06	197 (43.01)	-61.30
North	619 (37.49)	12.55	569 (25.57)	3.45	475 (23.81)	-13.64	200 (30.91)	-63.64	157 (34.28)	-71.45
Total	1651 (100.00)	-13.74	2225 (100.00)	16.25	1995 (100.00)	4.23	647 (100.00)	-66.20	458 (100.00)	-76.07

(Source: Annual Report, KFC)

(Figures in parenthesis is percentage share)

4.22.6 Amount of Loans Disbursed

The amount of loans disbursed (Table 3.12) by Kerala Financial Corporation in the Northern region is the lowest in almost all the years under the period of study (1999-04). The percentage share of the Northern region was only 24.81 during the year 1999-00 when the shares of the Southern and the Central regions were 36.99 percent and 38.20 percent respectively. This trend continued till the year 2002-03 when the percentage share of the Northern region was only 18.42 and the share of the Southern region was 30.21 and the Central region 51.37. During the year 2003-04 the Northern region slightly overtook the Southern region in the matter of the amount of loan sanctioned.

Table 4.12
Amount of loans disbursed by KFC (1999-2004) (Rs. In lakhs)

Region	1999-00		2000-01		2001-02		2002-03		2003-04	
	No	GR	No	GR	No	GR	No	GR	No	GR
South	5538 (36.99)	-21.51	8645.2 (38.10)	22.53	6823.4 (38.78)	-3.29	3393.1 (30.21)	-51.91	2795.8 (23.49)	-60.38
Central	5718.6 (38.20)	-29.43	8864.6 (39.07)	9.39	6807.8 (38.69)	-15.99	5768.9 (51.37)	-28.81	6074.3 (51.03)	-25.04
North	3715 (24.81)	-6.04	5179.6 (22.83)	31.00	3962.7 (22.52)	0.22	2068.8 (18.42)	-47.68	3032.4 (25.48)	-23.31
Total	14971.6 (100.00)	-21.67	22689.4 (100.00)	18.71	17593.9 (100.00)	-7.95	11230.8 (100.00)	-41.24	11902.5 (100.00)	-37.73

(Source: Annual Report, KFC)

(Figures in parenthesis is percentage share)

Table 4.12 also reveals the growth in the amount of loans disbursed by the Kerala Financial Corporation in the three regions over the study period (1999-04). Except during the year 2000-01, in almost all years, the growth rate in the amount of loan disbursed went down in all the regions. However in this case the position of the Northern region is found to be slightly better than that of the Southern and the Central regions.

The study of regional variations in the cases of the number and the amount of loan application, the number and the amount of loans sanctioned and the number and the amount of loans disbursed reveals the comparative backwardness of the Northern region when compared to the Southern and the Central regions.

4.23 Conclusion

The analysis made so far reveals that there is substantial decline both in the number and the amount of loans given by the Kerala financial Corporation during the study period 1999-04. The regional analysis shows that the Northern Kerala is far behind when compared to the southern and the Central regions in availing the financial assistance from the Corporation. This trend is to be discouraged because when the State is striving for rapid industrialisation, the major financier of industries in the State, namely, the Kerala Financial Corporation should take effective steps to channelise the required amount of finance to the industrial sector.

CHAPTER V

INFLUENCE OF KERALA FINANCIAL CORPORATION IN THE INDUSTRIAL DEVELOPMENT OF NORTHERN KERALA

5.1 Introduction

The financial sector liberalisation had led to a structural transformation in the business environment of the Development Financial Institutions like Kerala Financial Corporation. A large number of new players, including commercial banks have been permitted to extend term loans of larger magnitudes. This change made the business environment of the Development Financial Institutions like Kerala Financial Corporation more competitive.

Among the two major players of industrial financing in Kerala, namely, the Kerala State Industrial Development Corporation and the Kerala Financial Corporation, the role played by the latter is very crucial. As availability of finance is one of the key factors of industrial development, the Kerala Financial Corporation has to continue to perform its function of supporting the industrial sector of Kerala. In this context the researcher think that the Corporation should go through a self study which may throw enough light on the shortcomings in its financial performance. This study is intended to invite the attention of the Corporation along this direction.

A detailed analysis of the influence of Kerala Financial Corporation in the industrial development of Kerala with special reference to the Northern districts is presented in this chapter.

5.2 Variables Used for the Study

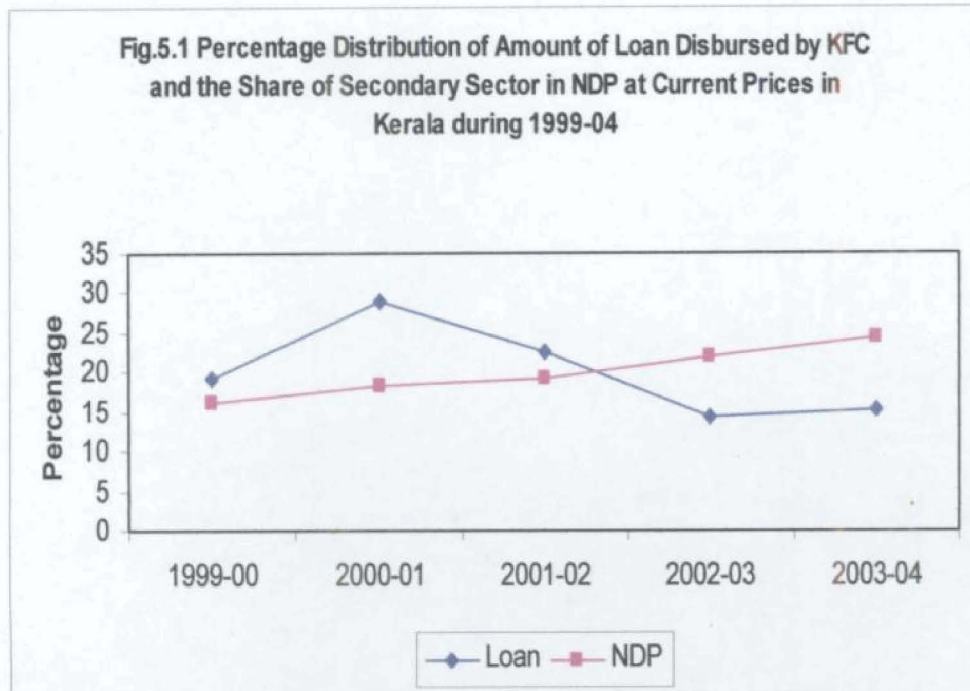
Industrial development is something that cannot be easily measured in quantitative terms. However the extent of Industrial Development can be detected through the analysis of certain economic indices. The major economic indices, which are taken for analysis, are the State Net Domestic Product at current and constant prices, the number of registered factories and the volume of employment provided by the industrial sector of Kerala.

The Kerala Financial Corporation is said to have influence in the industrial development of Kerala if there exists a correlation between the volumes of financial assistance made by the Corporation during the period of study (1999-04) with the changes in the aforesaid indices of industrial development during the same period.

The amount of loan disbursed during the five years of the study period (1999– 04) is considered as the relevant variable from the part of the Kerala Financial Corporation and the variables of industrial development studied here are : 1) the share of the secondary sector in the State NDP at current prices (2) the share of the secondary sector in the State NDP at constant prices (3) the number of registered factories and (4) the volume of industrial employment provided both in Kerala and North Kerala during the period 1999-04.

For the purpose of analysis the percentage scale is taken for each variable. The percentage for each year is calculated from the total value of the variable during 1999-04.

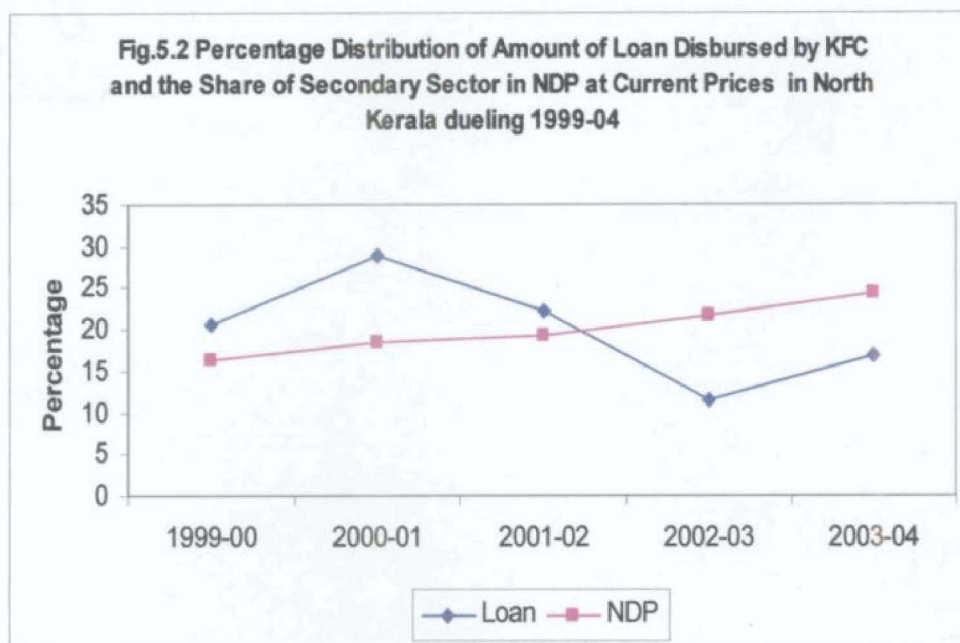
5.3 NDP at Current Prices (Kerala)



Source: *Economic Review and Annual Reports of KFC*

Figure 5.1 shows that the percentage share of secondary sector in NDP at current prices in Kerala during 1999-04 has increased slowly and steadily. However, the volume of financial assistance by the Kerala Financial Corporation during the same period falls significantly except during the year 1999-00. The year 2003-04 shows only a nominal growth rate. The graph shows that even when the industrial sector of Kerala was growing, the volume of financial assistance provided by the Corporation went down indicating the declining role of the Corporation in the industrial development of Kerala.

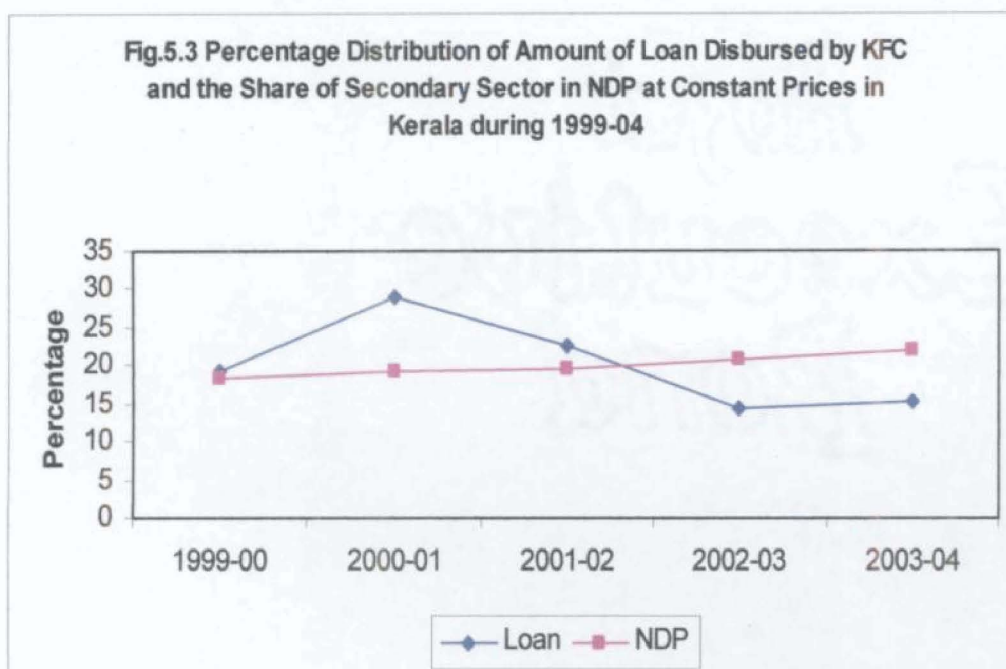
5.4 NDP at Current Prices (North Kerala)



Source: Economic Review and Annual Reports of KFC

The percentage share of the secondary sector of North Kerala in the State NDP at current prices during the period of study (1999-04) (Fig. 5.2) recorded gradual growth. This increased percentage share of the secondary sector in NDP shows that the industrial sector of North Kerala is on the path of development. However, during the same period the percentage share of the loan disbursed by the Kerala Financial Corporation in North Kerala went down except during the years 2000-01 and 2003-04. Analysis shows that even though the industrial sector of Kerala was growing, the volume of financial assistance provided by the Corporation went down, indicating the declining role of the Corporation in the industrial development of the Northern Kerala.

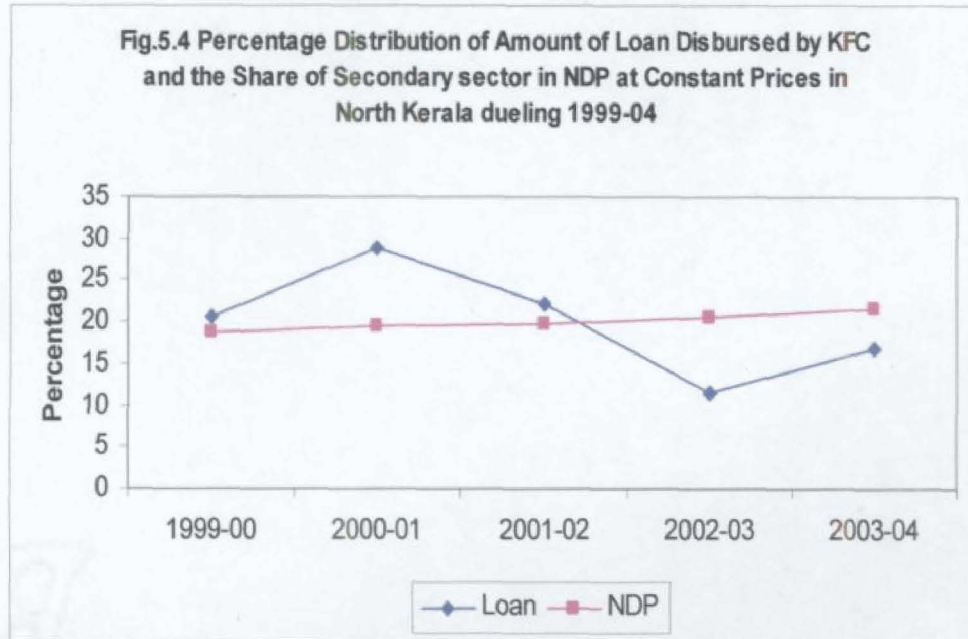
5.5 NDP at Constant Prices (Kerala)



Source: *Economic Review and Annual Reports of KFC*

According to figure 5.3, the share of secondary sector in NDP at *constant prices* in Kerala during the period 1999-04 has grown slightly as in the case of NDP at current prices (fig. 5.1) during the same period. However, the percentage share of the loan disbursed by the Kerala Financial Corporation slips downwards even when the industrial sector shows growth, which indicates the declining role of the Corporation in the industrial development of the State.

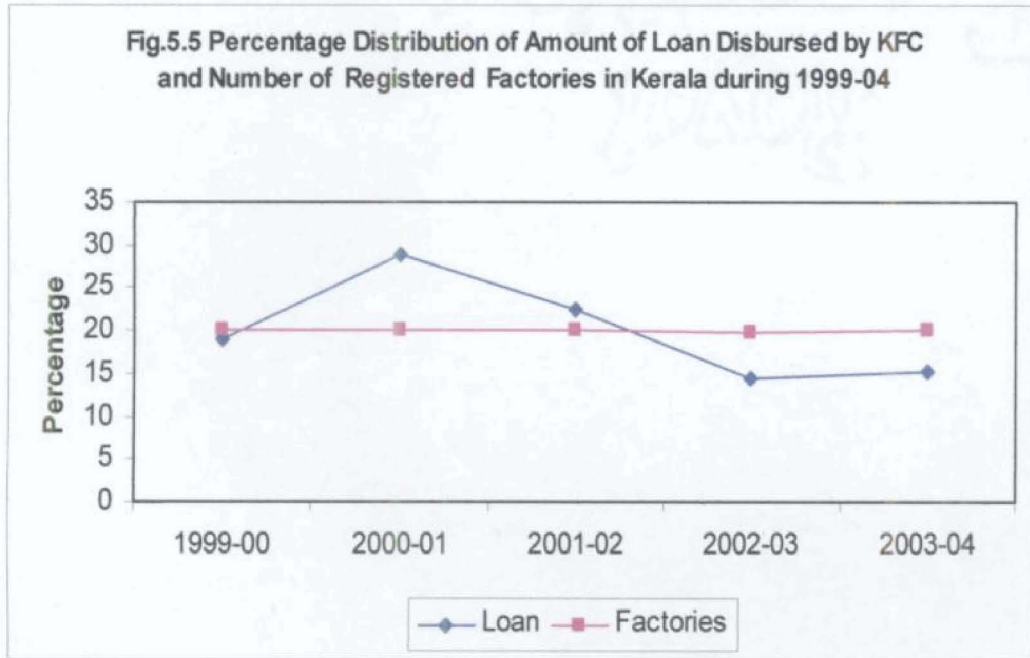
5.6 NDP at Constant Prices (North Kerala)



Source: Economic Review and Annual Reports of KFC

The percentage distribution of the amount of loan disbursed by the Kerala Financial Corporation and the share of secondary sector of North Kerala in the State NDP at constant prices during the period of study (1999-04) is given in Fig.5.4. The industrial sector of North Kerala witnessed growth during the study period. However, the contribution of the Corporation in the industrial development of North Kerala by way of providing long term financial assistance to the industrial sector declined during the same period.

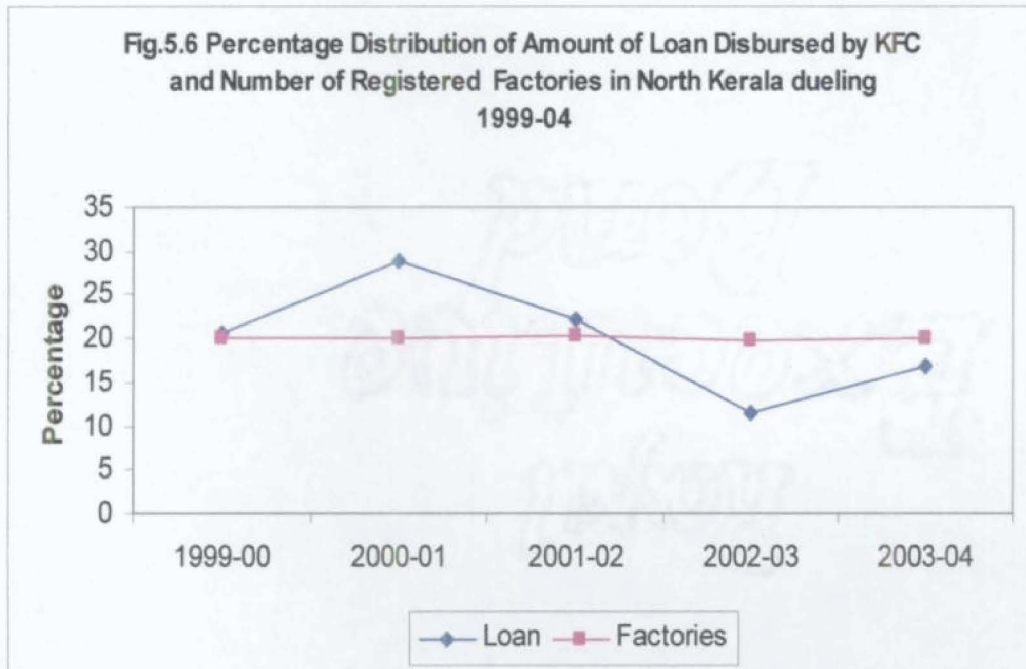
5.7 Number of Registered Factories (Kerala)



Source: *Economic Review and Annual Reports of KFC*

Figure 5.5 illustrates the percentage distribution of the amount of loan disbursed by Kerala Financial Corporation and the number of registered factories in Kerala during 1999-04. The graph shows that there is no growth in the number of registered factories in Kerala during the period. The lack of growth in the number of registered factories shows that the amount of loan disbursed by Kerala Financial Corporation during the period of study did not result in any increase in the number of registered factories in Kerala.

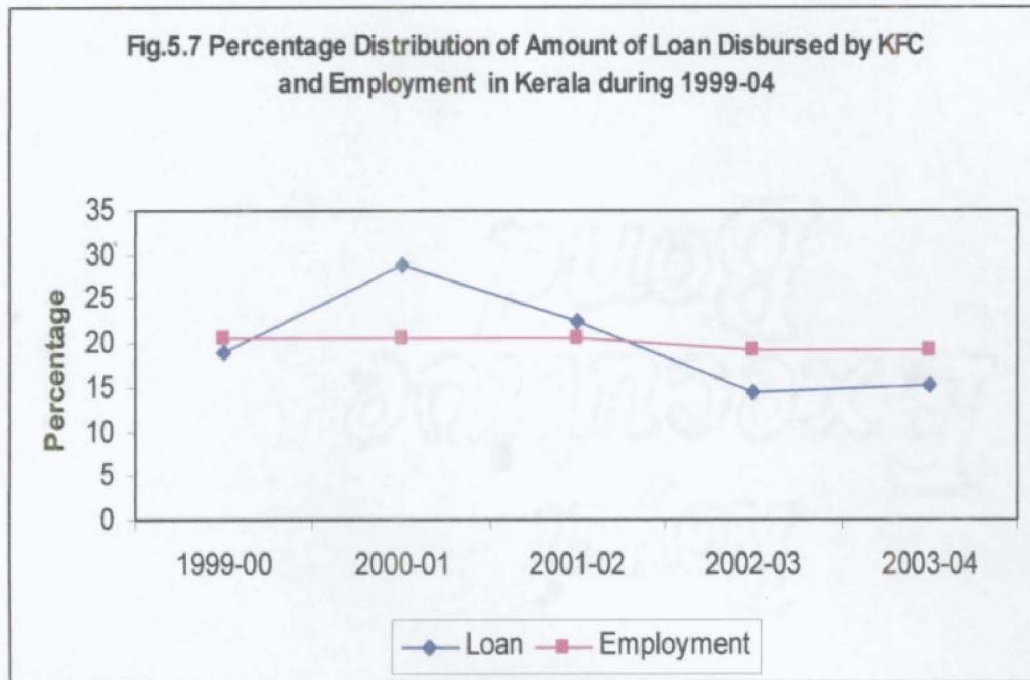
5.8 Number of Registered Factories (North Kerala)



Source: Economic Review and Annual Reports of KFC

Figure 5.6 shows the percentage distribution of the amount of loan disbursed by Kerala Financial Corporation and the number of registered factories in North Kerala during 1999-04. As in the case of the State, the lack of growth in the number of registered factories in North Kerala shows that the amount of loan disbursed by the Corporation during the period does not have any significant influence on the number of registered factories.

5.9 Volume of Industrial Employment (Kerala)



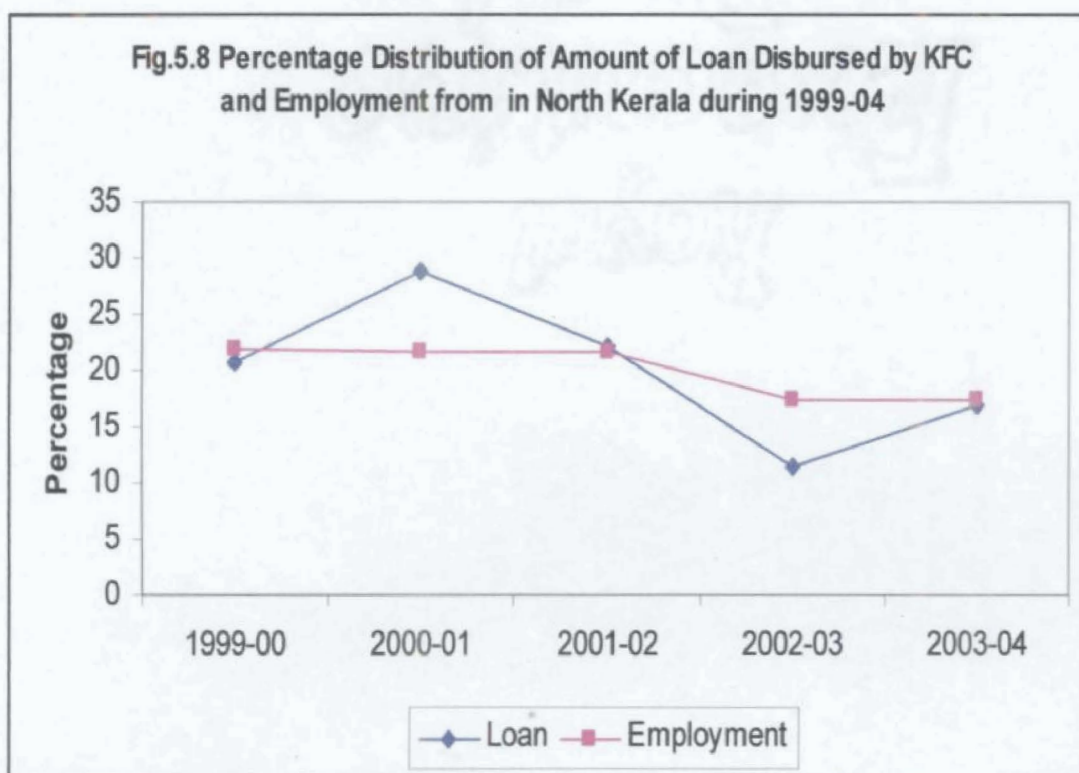
Source: *Economic Review and Annual Reports of KFC*

Figure 5.7 shows the percentage distribution of the amount of loan disbursed by Kerala Financial Corporation and the volume of employment provided by the industrial sector of Kerala during 1999-04. It reveals that there is no increase in the employment opportunities corresponding to the quantum of financial assistance of the Corporation to the industrial sector of Kerala.

5.10 Volume of Industrial Employment (North Kerala)

Figure 5.8 shows the percentage distribution of the amount of loan disbursed by the Kerala Financial Corporation and the volume of industrial employment in North Kerala during 1999-04. In the case of the volume of employment, the declining trend is in tune with the declining percentage share of amount of loan disbursed by the Corporation during the period of study. This indicates that according to the decline in the volume of financial

assistance of the Corporation in North Kerala, the volume of employment provided by the industrial sector also came down.



Source: Economic Review and Annual Reports of KFC

The analysis so far made reveals that there was growth in the industrial sector of Kerala and North Kerala during the period of study. However, the volume of financial assistance from the part of the Kerala Financial Corporation in both the areas during the same period came down. Similarly the loans provided by the Corporation in Kerala as well as in Northern Kerala during the different years under study did not result in any increase either in the number of registered factories or in the industrial employment. On the basis of the above findings, the first null hypothesis that the Kerala Financial Corporation does not have significant impact in the industrial development of Kerala and the second null hypothesis that the

Kerala Financial Corporation does not have significant impact in the industrial development of Northern Kerala are accepted.

The finding that the industrial development of Kerala and North Kerala are not in tune with the volume of financial assistance made by the Kerala Financial Corporation in the respective areas may be due to two reasons. The first may be that, the impact of loans disbursed by the Corporation during a particular period is felt on the industrial system only on the expiry of a reasonable period of time, say, two or three years. Another probable reason is that the entrepreneurs compensate the deficiency of financial assistance from the part of the Corporation by borrowing from some other similar or better financial agencies like other development banks, scheduled or commercial banks, etc.

Analysis of the secondary data indicates the diminishing role of Kerala Financial Corporation in the industrial development of Kerala. In the remaining portion of this chapter an attempt is made to verify the above findings with the help of data collected directly by the researcher from primary sources.

Primary data on four aspects such as, profile of the unit, profile of the entrepreneur, financial aspects and general aspects were collected from the respondents through a structured interview schedule. Profile of the unit (organisational profile) consists of information about the sample organisation, profile of the entrepreneur consists of personal information about the owner(s) (entrepreneur), financing aspects consists of information about the financial assistance of the Kerala Financial Corporation, and the general aspects consists of information about other aspects of the industrial / business unit.

5.11 Sample

Out of the five districts of Northern Kerala that are included under the specific area of study, three were selected at random, for the collection of sample. They are Kannur, Kozhikode and Malappuram. The sample consisted of 120 industrial / business units financed by Kerala Financial Corporation, which included sole proprietorship concerns, partnership firms and companies. Samples were collected from 40 units selected from each of the three districts with the help of systematic random sampling. Samples were collected from firms of different nature such as food and beverages, hotels and restaurants, textiles and readymades, plastic-based units, wood-based units, paper and printing units, rubber products, manufacturing units, transport services, engineering-based units and others.

5.12 Organisational Profile

The organisational level variables such as the type of business organisation, the nature of business, the number of employees employed in the organisation, the purpose of taking loan from the Corporation, and the amount invested in various assets of the unit are discussed in the following paragraphs.

5.12.1 Type of Business Organisation

For analysing business organisations on the basis of their types, they were divided into three (Table 5.1): sole proprietorship concerns, partnership firms and companies. Analysis shows that majority of the concerns were sole proprietorship concerns (55.93 percent). About one-third (35.83 percent) of the concerns were partnership firms and the remaining (8.33 percent) were companies.

Table 5.1
Distribution of Sample Units by Type of Business

		Number	Percent
Type of Business Organisation	Sole proprietorship concerns	67	55.83
	Partnership firms	43	35.83
	Companies	10	8.33
Total		120	100.00

Source: Primary data

5.12.2 Nature of Business

There were ten categories of industrial / business organisations covered under study on the basis of the nature of their business (Table 5.2). The first category were firms engaged in the production of food and beverages, the second category were firms engaged in the business of hotels and restaurants, the third, doing textiles and readymade business, the fourth, manufacturing plastic-based products, the fifth, producing wood-based products, the sixth, paper and printing, the seventh manufacturing rubber-based products, the eighth providing transport services, the ninth engineering-based units, and the tenth category of firms include all others.

Table 5.2.
Distribution of Sample Units by Nature of Business

		Number	Percent
Nature of Business	Food and beverages	8	6.67
	Hotel and restaurant	13	10.83
	Textiles and readymade	3	2.50
	Plastic based	18	15.00
	Wood based	10	8.33
	Paper and printing	5	4.17
	Rubber based products	4	3.33
	Transport services	3	2.50
	Engineering based	15	12.50
	Others	14	11.67
Total		120	100.00

Source: Primary data

On analysis it was found that 6.67 percent units financed by Kerala Financial Corporation were engaged in food and beverage business and 10.83 percent units did hotel and restaurant business. A small share of 2.50 percent units was engaged in textiles and readymade business and 15 percent were producing plastic-based products. When 8.33 percent of units manufacture products based on wood, only 4.17 percent units were dealing with paper products and printing. Rubber and rubber-based units consisted of 3.33 percent of the total number of units and 2.50 percent units were providing transportation services. Engineering-based units constituted 12.50 percent of the total and 11.67 percent units belonged to the others category.

5.12.3 Number of Employees

The employees employed by the industrial / business units consisted of both direct employees and indirect employees. For the purpose of analysing the nature and the magnitude of employment provided by the units financed by Kerala Financial Corporation, four categories of firms were identified on the basis of the number of employees employed (Table 5.3). The first category was firms employing up to five persons, the second category was firms employing six to ten persons, the third category was firms having 11 to 20 persons and the last category was firms employing more than 20 persons.

Table 5.3
Distribution of Sample Units by Number of Employees

			Number	Percent
Number of Employees	Direct	One to Five	29	24.17
		Six to Ten	33	27.50
		Eleven to Twenty	36	30.00
		Above Twenty	22	18.33
	Indirect	One to Five	56	46.67
		Six to Ten	20	16.67
		Eleven to Twenty	25	20.83
		Above Twenty	19	15.83
Total			120	100.00

Source: Primary data

Analysis (Table 5.3) shows that in the case of direct employment almost one fourth (24.17 percent) of units employ less than five employees, 27.50 percent of units have six to ten employees, 30.00 percent of units provided employment to 11 to 20 persons and only 18.33 percent firms

provide employment to more than 20 persons. It also shows that about 50 percent of the units provide employment to less than ten persons.

A similar analysis of indirect employment supply the following figures: nearly one half (46.67 percent) of units employ less than five indirect employees, 16.67 percent units have six to ten employees, 20.83 percent units engages 11 to 20 employees and 15. 83 percent units provide indirect employment to more than 20 persons.

5.12.4 Purpose of Loan

Industrial / business units have availed loans from Kerala Financial Corporation for different purposes of their business. There were three different purposes identified for analysis (Table 5.4) such as, establishment of the unit, expansion of the existing unit and modernisation of the existing business unit.

Table 5.4
Distribution of Sample Units on the Basis of Purpose of Loan Taken from KFC

		Number	Percent
Purpose of loan from KFC	Newly established unit	100	83.33
	Expansion of existing unit	17	14.17
	Modernisation of existing unit	3	2.50
Total		120	100.00

Source: Primary data

Analysis reveals that most of the (83.33 percent) units have availed loans from Kerala Financial Corporation for the purpose of establishing their new business unit. When 14.17 percent firms have availed loans for the expansion of their existing business units, only 2.50 percent of firms have taken loans for modernising their existing business units.

5.12.5 Amount Invested in the Unit

There were four areas where investment was made by the units financed by Kerala Financial Corporation, in their business (Table 5.5). They were land and building, plant and machinery, furniture and fittings and working capital. In each areas of investment, firms were divided in to four categories such as firms that have invested below Rs. six lakhs, firms that have invested between Rs. six and ten lakhs, firms that have invested between Rs. 11 and 20 lakhs and the last category was those firms that have invested above Rs. 20 lakhs.

Table 5.5
Distribution of Sample Units by Amount Invested

		(Rupees in lakhs)	Number	Percent
Amount invested in	Land and building	Below Six	41	34.17
		Six to Ten	20	16.67
		Eleven to Twenty	25	20.83
		Above Twenty	34	28.33
	Plant and machinery	Below Six	37	30.83
		Six to Ten	17	14.17
		Eleven to Twenty	22	18.33
		Above Twenty	44	36.67
	Furniture and fittings	Below Six	98	81.67
		Six to Ten	14	11.67
		Eleven to Twenty	5	4.17
		Above Twenty	3	2.50
	Working capital	Below Six	72	60.00
		Six to Ten	22	18.33
		Eleven to Twenty	9	7.50
		Above Twenty	17	14.17
Total			120	100.00

Source: Primary data

Analysis shows that (Table 5.5) 34.17 percent of units financed by Kerala Financial Corporation have invested less than Rs. six lakhs in land and building, 16.67 percent have invested an amount ranging between Rs. six and ten lakhs, 20.83 percent of units have invested Rs. 11 to 20 lakhs and 28.33 percent of firms have made an investment of above Rs. 20 lakhs. More than 50 percent of units financed by the Corporation have invested only a small amount that is up to Rs. ten lakhs in land and building. This shows that most of the firms under study, financed by the Corporation were small in size.

In the case of investment in plant and machinery (Table 5.5), nearly one third (30.83 percent) of units have invested below Rs. six lakhs, 14.17 percent of units made an investment between Rs. six and ten lakhs, 18.33 percent invested Rs. 11 to 20 lakhs and 36.67 percent of units have invested more than Rs. 20 lakhs.

In furniture and fittings 81.67 percent units have invested below Rs. six lakhs, 11.67 percent invested Rs. six to ten lakhs, 4.17 percent invested between Rs. 11 and 20 lakhs and only 2.5 percent of the units made an investment above Rs. 20 lakhs.

Working capital is another important area of investment as far as an industrial / business unit is concerned. It involves investment in the forms of inventories, receivables, running expenses, etc, in the concern. Majority (60 percent) of firms have invested below Rs. six lakhs in working capital, 18.33 percent have invested amounts between Rs. six and ten lakhs, 7.50 percent invested Rs. 11 to 20 lakhs and 14.17 per cent of the units have invested more than Rs. 20 lakhs.

5.13 Problems Faced by the Units

The industrial / business units financed by Kerala Financial Corporation suffers from many problems (Table 5.6) such as lack of demand, shortage of raw materials, lack of power, lack of skilled workers

and difficulties in procuring trade licenses. Analysis shows that majority of units (60.83 percent) suffered from lack of demand, 7.50 percent were having shortage of raw materials 8.33 percent face lack of power, 2.50 percent find it difficult to get trained workers and 7.50 percent units faced difficulties in procuring trade licenses and other government papers.

Table 5.6
Problems Faced by the Units

	No.	Percentage
Lack of demand	73	60.83
Shortage of raw materials	9	7.50
Lack of power	10	8.33
Lack of skilled workers	3	2.50
Difficulties in procuring trade license	9	7.50

Source: Primary data

Besides the above problems identified with the help of questions in the interview schedule, the respondents expressed the following problems, including problems relating to the financial assistance made by Kerala financial corporation.

- The Kerala Financial Corporation insists on too much collateral security when compared to the amount of loan availed.
- The Corporation undervalues the properties mortgaged with it, by the borrowers.
- The documentation of the loan agreement with the Corporation involves too many complicated and tiresome procedures.
- The frequent power failures adversely affect the smooth production process of the industrial units.

- The process of getting various clearances from the Government offices is very cumbersome.
- The Corporation follows a policy of collecting the interest element of the earlier installments of loans from the subsequent installments released.
- The penal interest of two percent charged by the Corporation on the defaulted amount is excessive and it causes a heavy burden on the borrowers.
- The rate of interest charged by the Corporation is very high, when compared to the rate charged by other financial agencies.
- The revised rates of interest on new loans are not made applicable to the existing loans.
- The practice of giving many loans to similar projects in the same locality by the Corporation results in unhealthy competition among the customer units.
- In the case of vehicle loans the seizure of automobile vehicles on the default of a few installments by the Corporation, make the defaulters incapable of further remittances.
- The Corporation does not take effort in orienting the entrepreneurs about various schemes like National Equity Fund.
- The Corporation does not have easy schemes of working capital loans as in the case of banks.
- The Corporation does not permit the units to remit higher amounts than the amount of installment fixed.
- The ability to furnish collateral security rather than the business intention of the applicant is the major criterion in granting loans by the Corporation.

5.14 Personal Profile

The second aspect of analysis relates to the personal profile of the entrepreneur. Age of the entrepreneur(s), his / their educational status, previous experience in the existing line of business, and training undergone by the entrepreneur were the variables under consideration. These variables are discussed in the following pages.

5.14.1 Age of the Entrepreneur

Age is an important motivating factor in the industrial entrepreneurship. For the purpose of studying the age structure of the entrepreneurs, they were divided into three categories (Table 5.7) of age group such as between 21 and 40 years, between 41 and 60 years and above 60 years. The table shows that more than two third (70 percent) of the entrepreneurs belong to the middle age group (41-60). While the percentage of young entrepreneurs is 22.50 percent (21 - 40), the percentage of entrepreneurs from the age group above 60 is only 8.33. Although the interview schedule contained another age group of below 20 years there was no respondent belonging to the group.

Table 5.7
Distribution of Entrepreneurs by Age

Characteristics	(Years)	Number	Percent
Age	Between 21 and 40	27	22.50
	Between 41 and 60	83	69.17
	Above 60	10	8.33

Source: Primary data

5.14.2 Education of the Entrepreneur

The entrepreneurs of the units financed by Kerala Financial Corporation belonged to different education levels (Table 5.8). There were entrepreneurs whose educational qualifications were below SSLC, SSLC qualified, *graduates and above* and others.

Table 5.8
Distribution of Entrepreneurs by Education

Characteristics		Number	Percent
Education	Below SSLC	21	17.50
	SSLC	28	23.33
	Graduate & above	55	45.83
	Others	16	13.33

Source: Primary data

On analysis it was found that only a small portion (17.50 percent) of entrepreneurs had a lower educational qualification below SSLC, 23.33 percent of entrepreneurs were SSLC qualified, nearly one half (45.83 percent) of the entrepreneurs have either graduation or post graduation, and 13.33 percent have other qualifications. The higher educational qualification of nearly half of the entrepreneurs shows that more and more educated people are attracted to the industrial sector.

5.14.3 Previous Experience of the Entrepreneurs

From the point of view of previous experience in business, entrepreneurs of the units financed by Kerala Financial Corporation were divided into five categories (Table 5.9). The first category was those entrepreneurs who do not have any previous business experience, the second was those with less than three years experience, the third included entrepreneurs with experience of three to six years, the fourth was those

who have business experience between seven and ten years and the last category was entrepreneurs having above ten years experience.

Table 5.9
Distribution of Entrepreneurs by Previous Business Experience

Characteristics		Number	Percent
Previous Experience	No prior experience	63	52.50
	Less than 3 years	5	4.17
	Above 3 up to 6 years	7	5.83
	Above 7 up to 10 years	5	4.17
	Above 10 years	40	33.33

Source: Primary data

From the analysis (Table 5.9) it could be seen that majority (52.50 percent) of the entrepreneurs did not have any previous business experience. However 4.17 percent of entrepreneurs had an experience below three years, 5.83 percent of entrepreneurs were experienced from three to six years, 4.17 percent were experienced from seven to ten years and one third (33.33 per cent) of entrepreneurs did have experience of above 10 years. The analysis reveals that majority of the entrepreneurs financed by Kerala Financial Corporation were first generation entrepreneurs. This may be caused by various schemes offered by the Corporation to motivate the first generation entrepreneurs.

5.14.4 Training Undergone by the Entrepreneurs

Table 5.10 shows the details of training undergone by the entrepreneurs of units financed by Kerala Financial Corporation before they commence their business. Out of the total, one third (40) of the entrepreneurs were having some kind of training such as entrepreneurship training, on-the-job training, sales promotion training or any other type of

training. However two third (80) of the entrepreneurs did not undergo any training at all.

Table 5.10
Distribution of Entrepreneurs on the basis of Training Undergone

Characteristics		Number	Percent
Training availed	Yes	40	33.33
	No	80	66.67
Entrepreneurship development	Yes	11	27.50
On-the-job training	Yes	29	72.50
Sale promotion training	Yes	1	2.50
Others	Yes	4	10.00

Source: Primary data

Out of the entrepreneurs who have undergone training before commencing their business, 27.50 percent (Table 5.10) were trained by entrepreneurial development programmes. Most of the trained entrepreneurs (72.50 percent) were having on-the-job training. When 2.50 percent entrepreneurs were trained in sales promotion, 10 percent entrepreneurs were having some other types of training.

5.15 Financing Aspects

The third aspect of analysis of primary data is relating to the financial aspects of the units financed by Kerala Financial Corporation during the period 1999-04. Under this, various financial aspects such as different sources from which the capital was mobilised, the amount of loan taken from the Corporation, the difference between the amount of loan applied for and the amount of loan sanctioned, period of repayment of the loan taken from the Corporation, the purpose for which loan was taken, the level of satisfaction of the borrowers in the financial assistance of the Corporation,

the time taken for sanctioning loans after the submission of application, the time taken for disbursement of loans sanctioned, the level of satisfaction of the entrepreneurs in the co-operative attitude of officials of the Corporation, the rate of interest on the loan taken, the opinion of borrowers about the rate of interest charged by the Corporation, the number of installments in which the loan was released, the gestation period allowed in commencing repayment of the loan, the repayment schedule of loan, the promptness from the part of entrepreneurs in the repayment of loan, the sufficiency of the amount of loan taken from the Corporation for the purpose of the business, and the profit status of the unit were analysed.

5.15.1 Sources of Capital

There were various sources from which the industrial units financed by Kerala Financial Corporation mobilised their capital. Table 5.11 reveals that they mobilised capital from different sources, such, as own funds, loans from the Corporation, bank loans and other sources.

Table 5.11
Source-wise Distribution of Capital Mobilised

		Frequency	Percent
Source	Own funds	120	100.00
	KFC financing	120	100.00
	Banks	52	43.30
	Others	9	7.5

Source: Primary data

As the population of the sample is units financed by Kerala Financial Corporation, all the industrial / business units have availed loans from the Corporation (Table 5.11). Along with term loans from the Corporation, all the units invested their own funds in their business, 43.30 percent have resorted

to bank loans and 7.5 percent entrepreneurs have mobilised a portion of their capital from other sources.

5.15.2 Amount of Loans Applied for, Sanctioned and Disbursed

Table 5.12 shows the relationship among the amount of loan applied for by the industrial units from the Kerala Financial Corporation, the amount of loan sanctioned and the amount of loan disbursed by the Corporation during the period 1999-04. As some of the loan applications submitted to the Corporation during a particular year was sanctioned during the subsequent year, and similarly, some of the loans sanctioned during a year are disbursed during the subsequent year, comparison of the amount of loan applied for, the amount of loans sanctioned and the amount disbursed during the same year become irrational. Therefore, comparison is made between the mean scores of the three variables.

Table 5.12

Distribution of Loans Applied for, Sanctioned and Disbursed from the Kerala Financial Corporation during the Period 1999-04.

	Mean value (Rs. in Lakhs)	Standard Deviation
Loan Applied for	21.73	24.46
Loan Sanctioned	20.53 (94.48%)	24.91
Loan Disbursed	19.75 (96.20%)	22.79

Source: KFC Annual Reports - Various years

The average amount of loans applied for by the units from Kerala Financial Corporation during the period 1999-04 was Rs. 21.73 lakhs. Of the amount applied for, the Corporation sanctioned an average amount of Rs. 20.53 lakhs (94.48 percent of loan applied for). During the period the Corporation disbursed an average amount of Rs. 19.75 lakhs, which was

96.20 percent of the amount of loan sanctioned. The difference between the amount of loan applied for and amount sanctioned indicates the insufficiency of financing the requirements of borrowers by Kerala Financial Corporation.

5.15.3 Purpose of the Loan

Industrial/business units require capital mainly for two purposes, namely, investment in fixed assets and investment in working capital. For the purpose of analysis table 5.13 classifies the purpose of loans availed from the Kerala Financial Corporation into three categories such as investment of loans only in fixed assets, only in working capital and investment both in fixed assets and in working capital.

Out of the industrial / business units financed by Kerala Financial Corporation, majority (75 Percent) have taken loans from the Corporation for investment in fixed assets. Not even a single unit has taken loan from the Corporation exclusively for working capital. The reason may be that the Kerala Financial Corporation does not have schemes of providing only working capital loans to an entrepreneur. One fourth of the units (25 percent) have availed working capital loans along with loans for fixed assets, from the Corporation.

Table 5.13
Purpose-wise Distribution of Loans taken during the period
(1999-04)

Investment in:	Frequency	Percent
Fixed asset	90	75.00
Working Capital	0	0.00
Both	30	25.00
Total	120	100.00

Source: Primary data

5.15.4 Capital Structure of the Units

The capital structure of the units financed by Kerala Financial Corporation is presented in table 5.14. There were four components of capital, namely, own contribution, loans from Kerala Financial Corporation, Bank loans and other sources. The mean value of each component of capital structure is considered for the study.

The promoter's contribution (with an average amount of Rs.36.43 Lakhs) has accounted the major share in the total capital invested by the units financed by Kerala Financial Corporation. The contribution from the part of the Corporation to the total investment comes only in the second place (Rs.19.29 Lakhs). When Banks accounted an average amount of Rs.11.74 Lakhs, other sources contributed only Rs. 1.50 Lakhs in the total investment.

Table 5.14
Source-wise Distribution of total Investment in the Units

	Source	Mean Value (Rs. in lakhs)	Standard Deviation
Total investment	Own contribution	36.43	52.20
	KFC	19.29	21.83
	Banks	11.74	14.90
	Other sources	1.50	0.94
Working capital	Own contribution	5.26	9.35
	KFC	3.32	2.85
	Banks	9.54	11.19
	Other sources	1.00	

Source: Primary data

The working capital also came from four sources, namely; promoter's contribution, loans from the Kerala Financial Corporation, Bank loans and other sources (Table 5.14). Average promoters contribution towards working capital was Rs. 5.26 lakhs. When Banks contributed Rs. 9.54 lakhs on an average to the working capital, the share of the Corporation was low (Rs. 3.32 lakhs). There are two probable reasons for the low level of working capital loans from the part of the Corporation when compared to Banks. The first reason may be that the Corporation started providing working capital loans only in the recent years. According to the respondents of this study the second (and an important) reason is that unlike banks, the Corporation does not provide easy working capital loans such as Over Draft Facility, Revolving Credit and Bill Limit. On an average, Rs. one lakh amount was mobilised by the entrepreneurs from other sources towards working capital.

5.16 Inconsistency in the Financial Performance of Kerala Financial Corporation

As revealed by the earlier discussions, the financial performance of Kerala Financial Corporation over the period of study (1999-04) has been found highly inconsistent. Within this inconsistency a general trend of deterioration in the volume of financial assistance during the same period was also visible. Two reasons can be identified for the inconsistency in the financial assistance and the deterioration in the volume of financing by the Corporation during the period. The first reason is the change in the behaviour of the lender, the Kerala Financial Corporation, and the second is the change in the behaviour of the borrower the industrial / business organisations that have availed loans from the Corporation.

The change in the behaviour of Kerala Financial Corporation is in the form of intentional curtailment in the number of loans. Recently the Corporation has been following a policy change towards emphasising more on the quality of loans rather than their quantity. Before the policy change the Corporation has been giving loans only on the security of the mortgage

of the industrial unit itself and the personal guarantee of the borrower. However this policy has led the Corporation towards accumulation of large volumes of Non Performing Assets (NPAs). As on 01-04-05, the NPAs of the Kerala Financial Corporation stood at 64.36 percent*. This accumulation of NPAs forced the Corporation to think seriously about concentrating more on safe loans rather than risky and under-secured loans. The new policy of NPA reduction motivated the Corporation to insist on collateral security in addition to the mortgage of the industrial unit and the personal guarantee of the borrower. These strict norms from the part of the Corporation ultimately resulted in the decline in the volume of loans.

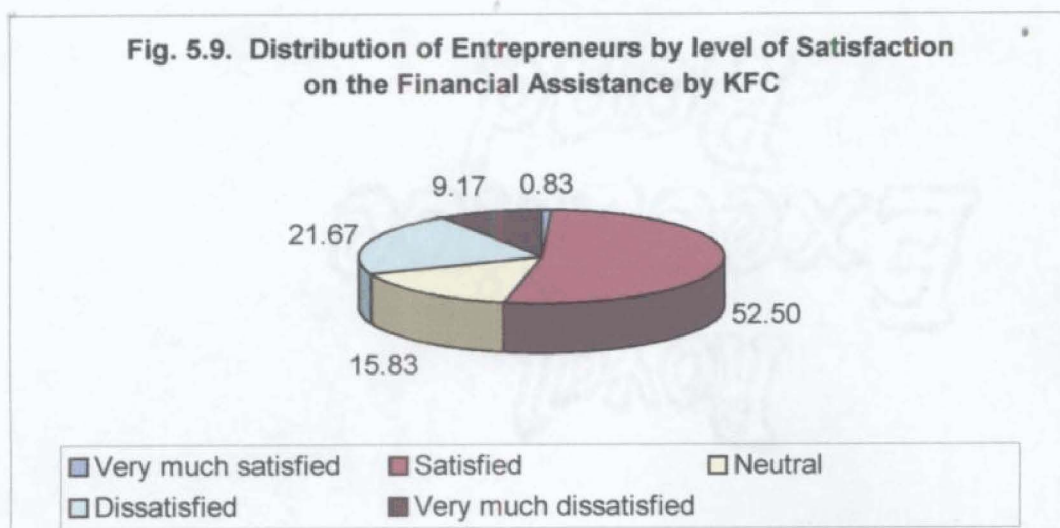
The change in the behaviour of borrowers was in the form of not approaching the Corporation for loans. They do not go to the Corporation for financial assistance because they are no more attracted by the lending policies of the Corporation. A search for the reasons why industrial / business units were not attracted by the Corporation reveals the fact that their satisfaction levels in the matter of financial assistance of the Corporation has declined. Hence the study of satisfaction of those who have availed financial assistance from the Kerala Financial Corporation and the factors influencing their satisfaction level becomes imperative in this context.

5.17 Level of Satisfaction of the Borrowers

Figure 5.9 shows the distribution of entrepreneurs by level of satisfaction on the financial assistance of Kerala Financial Corporation. The level of satisfaction of the borrowers who have availed financial assistance from the Corporation has been measured on a five-point scale. They were very much satisfied, satisfied, neutral, dissatisfied and very much dissatisfied.

*Source: Recovery policy statement of KFC dated 19/8/05 circular No.44, for office circulation only

Fig. 5.9. Distribution of Entrepreneurs by level of Satisfaction on the Financial Assistance by KFC



Source: Primary data

Only a small fraction of entrepreneurs (0.83 percent) who have availed financial assistance from the Kerala Financial Corporation were very much satisfied in the financial assistance of the corporation. However, majority of entrepreneurs (52.50 percent) were satisfied in the financial assistance of the Corporation. When 15.83 percent of the entrepreneurs remained neutral as to whether they were satisfied or dissatisfied, nearly one fourth (21.67 percent) entrepreneurs expressed themselves that they were dissatisfied and 9.17 percent of entrepreneurs were very much dissatisfied in the financial assistance of the Corporation.

For the purpose of analysis, the entrepreneurs who have availed financial assistance from the Kerala Financial Corporation were classified into two categories namely *satisfied*, and *not satisfied* as the ratio between them was found to be nearly 50: 50. Those entrepreneurs who have expressed their satisfaction level as *very much satisfied* and *satisfied* were included in the category *satisfied*. The remaining entrepreneurs were included in the *not satisfied* group.

For identifying the reasons for satisfaction / dissatisfaction of the entrepreneurs on the financial assistance of Kerala Financial Corporation, 20

variables were identified on three aspects of the industrial / business units financed by the Corporation. The three aspects were the unit profile, the personal profile and the financial aspects.

The variables from the area of unit profile include the type of business organisation, the amount invested in the industrial unit, the profit status and the extent of capacity utilisation in the unit.

The variables from the area of personal profile include, the age of the entrepreneurs, the education level of the entrepreneurs and the experience in the existing line of business by the entrepreneurs at the time of starting his / her industrial / business unit.

The variables from the area of financing include, the amount of loan taken, the percentage of loan amount (applied) disallowed by the Corporation at the time of sanction, the period of repayment of the loan, the time taken for sanctioning loan after the receipt of application, the time taken for disbursing the loan after sanction, the attitude of the Corporation officials towards the borrowers, the rate of interest on the loan, the opinion of entrepreneurs about the rate of interest, the number of installments by which the loan is to be repaid, the period of loans and the sufficiency of the amount of loan advanced to the entrepreneurs.

Table 5.15 presents the distribution of industrial units on the basis of unit profile and their satisfaction levels. The number and percentage of four variables such as the type of business organisation, the amount invested in assets, the profit status and the extent of capacity utilisation with regard to their satisfaction level is given in the table.

Table 5.15

Distribution of Sample units by Type, Investment, Profit and Capacity utilization

		Satisfied		Not satisfied		Total		Z value	p
		No.	%	No.	%	No.	%		
Type of business	Sole proprietorship	32	47.76	35	52.24	67	100.00	0.367	0.719
	Partnership firm	24	55.81	19	44.19	43	100.00	0.762	0.447
	Company	8	80.00	2	20.00	10	100.00	1.897	0.050
Investment	Below 20 lakhs	13	30.95	29	69.05	42	100.00	2.469	0.014
	21-60 lakhs	22	56.41	17	43.59	39	100.00	0.801	0.424
	Above 60 lakhs	29	74.36	10	25.64	39	100.00	3.042	0.002
Profit status	Running at profit	40	62.50	24	37.50	64	100.00	2.000	0.046
	Not running at profit	24	42.86	32	57.14	56	100.00	1.069	0.289
Capacity utilization	Up to 25 percent	9	69.23	4	30.77	13	100.00	1.387	0.168
	26 to 50 percent	20	40.82	29	59.18	49	100.00	1.286	0.201
	51 to 75 percent	19	54.29	16	45.71	35	100.00	0.507	0.617
	More than 75 percent	16	69.57	7	30.43	23	100.00	1.877	0.061

Source: Primary data

5.17.1 Type of Business Organisation and the Level of Satisfaction

From the point of view of type of business organisation, the units financed by Kerala Financial Corporation were classified into three categories such as, sole proprietorship concerns, partnership firms and companies. The table shows that majority of the companies were satisfied in the financial assistance of the Corporation. 80 percent of the companies financed by the Corporation expressed their satisfaction. However the other two categories namely sole proprietorship concerns and partnership firms were almost equally divided between *satisfied* and not *satisfied* groups. Analysis shows that the Corporation has been successful in satisfying the financial requirements of companies whereas it failed to satisfy the financial

requirements of sole proprietorship concerns and partnership firms. This result matches with the satisfaction level of entrepreneurs according to the volume of investment discussed below.

5.17.2 Volume of Investment and the Level of Satisfaction

Table 5.15 shows that the industrial units, who have invested on a large scale in their industrial unit, were more satisfied and those who have invested less were not satisfied in the financial assistance of the Kerala Financial Corporation. Among the industrial units who have invested below Rs. 20 lakhs, 69.05 percent were not satisfied in the financial assistance of the Corporation. However 74.36 percent of the industrial units who have invested above Rs.60 lakhs were satisfied in the financial assistance of the Corporation. The third categories of industrial units who have invested between Rs.21 to 60 lakhs were equally divided between *satisfied* and *not satisfied* groups. The fact that most of the companies belong to the group of units having invested above Rs. 60 lakhs stresses the earlier finding that, the greater the volume of investment, the greater the satisfaction level in the financial assistance of the Corporation.

5.17.3 Profitability and the Level of Satisfaction

Profit is the base of success of every industrial / business organisation. Sufficient profits help an organisation to make prompt repayment of its loan. Insufficiency of profits may lead to non-cordial relationship between the Kerala Financial Corporation and its borrowers, which ultimately results in recovery and takeover proceedings. Table 5.15 divided the entrepreneurs into two categories from the point of view of profit status, such as, firms running at profit and firms running not at profit. Analysis shows that the profitability is a determinant of the satisfaction level of entrepreneurs who have availed loans from the Corporation. Entrepreneurs who made profit were satisfied (P value 0.046) in the financial assistance of the Corporation. In the case of units running not at profit, there

is no significant relationship between their profitability and level of satisfaction in the financial assistance of the Kerala Financial Corporation.

5.17.4 Capacity Utilised and the Level of Satisfaction

Success of every business firm depends on the extent of capacity utilised by it. On account of several reasons such as, lack of raw materials, shortage of power, shortage of demand, acute competition, etc., industrial / business units may not be able to operate to its full capacity. Underutilisation of installed capacity may lead to unviability of the unit and consequent default in loan repayment. On the basis of capacity utilisation, industrial units were classified (Table 5.15) into four categories, such as, units utilising up to 25 percent capacity, between 26 and 50 percent capacity, between 51 and 75 percent capacity and more than 75 percent capacity. Analysis shows that there is no significant relationship between the extent of capacity utilisation of an industrial unit and its level of satisfaction in the financial assistance of the Kerala Financial Corporation.

5.18 Personal Profile and the Level of Satisfaction

The personal profiles of entrepreneurs include variables such as, their age, education level and previous business experience in the field of business. Table 5.16 shows distribution of satisfaction level of entrepreneurs who have availed financial assistance from the Kerala Financial Corporation, on the basis of the above variables.

For the purpose of convenience entrepreneurs who have availed financial assistance from the Corporation were classified into three categories such as entrepreneurs between the age of 21 and 40, between the age of 41 and 60 and aged above 60 years.

Table 5.16

Distribution of Sample units by Age, Education and Experience

		Satisfied		Not satisfied		Total		Z value	p
		No.	%	No.	%	No.	%		
Age (years)	Between 21 and 40	13	48.15	14	51.85	27	100.00	0.192	0.849
	Between 41 and 60	45	54.22	38	45.78	83	100.00	0.768	0.447
	Above 60	6	60.00	4	40.00	10	100.00	0.632	0.529
Education	Below SSLC	14	66.67	7	33.33	21	100.00	1.528	0.129
	SSLC	13	46.43	15	53.57	28	100.00	0.378	0.711
	Graduation & above	29	52.73	26	47.27	55	100.00	0.405	0.689
	Others	8	50.00	8	50.00	16	100.00	0.000	1.000
Experience	Not experienced	39	61.90	24	38.10	63	100.00	1.890	0.060
	Experienced	24	42.11	33	57.89	57	100.00	1.192	0.234

Source: Primary data

Analysis (Table 5.16) shows that the age of entrepreneur does not influence their level of satisfaction in the financial assistance of Kerala Financial Corporation. In all the three age groups there is no significant difference between the two categories *satisfied* and *not satisfied*. Whether the entrepreneurs were young, middle aged or old does not have any impact on their satisfaction levels, in the matter of financial assistance of the Corporation.

The entrepreneurs who have availed financial assistance from Kerala Financial Corporation belonged to different categories on the basis of their educational qualification (Table 5.16) such as *below SSLC*, *SSLC completed*, *graduates and above* and the *others*. Analysis shows that in all the four categories on the basis of education, there is no significant relationship between the level of satisfaction in the financial assistance of the Corporation and educational qualification of the entrepreneurs. It otherwise

means that the satisfaction level of entrepreneurs financed by the Corporation is not influenced by the educational qualification that they possess.

Previous business experience makes another classification of entrepreneurs financed by Kerala Financial Corporation (Table 5.16), such as those with previous business experience and those without previous business experience. In the analysis it was found that those entrepreneurs who did not have any previous business experience were satisfied. However in the case of entrepreneurs who were having previous business experience, there was no significant relationship between their previous business experience and level of satisfaction in the financial assistance of the Corporation.

5.19 Financial Aspects and the Level of Satisfaction

Table 5.17 shows that in the area of financing, fourteen variables are relevant for analysing the satisfaction level of entrepreneurs, who have availed financial assistance from the Kerala Financial Corporation. The variables include, the amount of loan taken from the Corporation, the proportion between the amount of loan applied for and sanctioned, the repayment schedule of the loan taken, the time taken for sanctioning the loan, the time taken to disburse the loan, the attitude of officials of the Corporation towards the entrepreneurs, the rate of interest on the loan taken, the attitude of borrowers towards the rate of interest, the installments in which the loan sanctioned is released to the borrowers, the gestation period allowed for commencing repayment of the loan, the repayment schedule of the loan, the promptness in the repayment, the sufficiency of loan given, and the profit status of the unit financed by Kerala Financial Corporation

Table 5.17

Distribution of Sample Units by Loan taken, Loan allowed, etc.

		Satisfied		Not satisfied		TOTAL		Z	p
		No	%	No	%	No	%		
Loan Taken (Rs .in lakhs)	1 to 5	9	30.00	21	70.00	30	100.00	2.191	0.029
	6 to10	13	40.63	19	59.38	32	100.00	1.061	0.289
	11 to 20	13	72.22	5	27.78	18	100.00	1.886	0.060
	Above20	29	72.50	11	27.50	40	100.00	2.846	0.005
Amount Allowed	Full	43	63.24	25	36.76	68	100.00	2.183	0.029
	75%	12	41.38	17	58.62	29	100.00	0.928	0.358
	Less than75%	9	39.13	14	60.87	23	100.00	1.043	0.298
Repayment Schedule	5 to 6 years	7	35.00	13	65.00	20	100.00	1.342	0.180
	7 to 8 years	43	58.11	31	41.89	74	100.00	1.395	0.165
	Above 8 years	14	53.85	12	46.15	26	100.00	0.392	0.697
Time for Sanction	Less than 1 month	4	36.36	7	63.64	11	100.00	0.905	0.368
	1 to 3 months	48	60.76	31	39.24	79	100.00	1.913	0.050
	4 to 6 months	6	30.00	14	70.00	20	100.00	1.789	0.075
	Above 6 months	3	30.00	7	70.00	10	100.00	1.265	0.208
Time to Disburse	Less than 2 weeks	15	55.56	12	44.44	27	100.00	0.577	0.569
	2 to 4 weeks	44	59.46	30	40.54	74	100.00	1.627	0.105
	Above 4 weeks	6	31.58	13	68.42	19	100.00	1.606	0.110
Attitude of Officials	Quite satisfied	48	69.57	21	30.43	69	100.00	3.250	0.000
	Some what satisfied	13	35.14	24	64.86	37	100.00	1.808	0.072
	Not satisfied	4	28.57	10	71.43	14	100.00	1.604	0.110
Opinion on Interest	High	33	37.93	54	62.07	87	100.00	2.251	0.024
	Reasonable	31	93.94	2	6.06	33	100.00	5.048	0.000

		Satisfied		Not satisfied		TOTAL		Z	p
		No	%	No	%	No	%		
Release schedule	One	4	44.44	5	55.56	9	100.00	0.333	0.741
	Two	9	39.13	14	60.87	23	100.00	1.043	0.298
	Three	40	58.82	28	41.18	68	100.00	1.455	0.147
	Four and above	11	55.00	9	45.00	20	100.00	0.447	0.660
Gestation period	Below one year	12	31.58	26	68.42	38	100.00	2.271	0.023
	One year and above	52	63.41	30	36.59	82	100.00	2.429	0.016
Repayment schedule	Monthly	52	69.33	23	30.67	75	100.00	3.349	0.000
	Quarterly	12	29.27	29	70.73	41	100.00	2.655	0.008
	Half yearly	0	0.00	4	100.00	4	100.00	2.000	0.046
Promptness in repayment	Prompt in repayment	60	77.92	17	22.08	77	100.00	4.900	0.000
	Not prompt in repayment	4	9.30	39	90.70	43	100.00	5.337	0.000
Sufficiency of Loan	Loan sufficient	26	54.17	22	45.83	48	100.00	0.577	0.569
	Loan not sufficient	38	52.78	34	47.22	72	100.00	0.471	0.638

Source: Primary data

5.19.1 Amount of Loan Taken

The units financed by Kerala Financial Corporation belong to different categories on the basis of the amount of loan taken from the Corporation. In order to make the analysis easy, they were grouped into four categories such as, those units who have taken loans amounting up to Rs. five lakhs, Rs. six to ten lakhs, Rs.11 to 20 lakhs and loans above Rs.20 lakhs.

Analysis (Table 5.17) shows that the higher the amount of loan taken from the Kerala Financial Corporation, the higher the level of satisfaction of the borrowers and vice versa. Majority of the entrepreneurs (70 percent) who

have taken small loans (up to Rs. five Lakhs) were found to be not satisfied in the financial assistance of the Corporation (P value of 0.029). However, as the size of loans increases, the satisfaction level also progresses. In the next two groups of amount of loans of Rs. six to ten Lakhs and Rs. 11 to 20 Lakhs, the size of the loan does not influence the level of satisfaction of the borrowers. On the other hand the entrepreneurs who have taken loans exceeding Rs.20 Lakhs from the Corporation were found to be quite satisfied (P value 0.005). Altogether the analysis gives the message that the schemes of financial assistance do not satisfy small entrepreneurs when it satisfies large entrepreneurs.

5.19.2 Amount of Loan Allowed

The proportion between the amount of loan demanded by the units and the amount of loan given by the Corporation influences the satisfaction level of industrial units. Table 5.17 shows, how far the Corporation was meeting the request for loans from the part of the borrowers. For the purpose of analysis, entrepreneurs were divided into three groups such as entrepreneurs whose loan applications were fully sanctioned, sanctioned above 75 but less than 100 percent and sanctioned below 75 percent of the amount applied for. Analysis indicates that those entrepreneurs who have been given whatever amount of loan they have asked for from the Corporation were fully satisfied (P value 0.029). However, in the case of the other two groups of entrepreneurs whose loan application were under-sanctioned, there was no significant relationship found between their level of satisfaction and the ratio between the amount of loan applied for and sanctioned. Analysis indicates that the satisfaction levels of the borrowers of the Corporation can be improved by providing them the amount requested for.

5.19.3 Repayment Schedule

The satisfaction levels of the borrowers were analysed also on the basis of the repayment period allowed by Kerala Financial Corporation

(Table 5.17) on the loans availed by them. Three categories of repayment periods were found to be given by the Corporation such as five to six years, seven to eight years and above eight years. Analysis shows that the period of repayment allowed by the Corporation to its beneficiaries does not have any significance in their level of satisfaction in the financial assistance of the Corporation.

5.19.4 Time Taken for Sanctioning Loan

The time taken by Kerala Financial Corporation to sanction the loan after receiving the application is another factor that may influence the borrower's level of satisfaction in the financial assistance. An entrepreneur may be looking for a quick response from the Corporation towards his loan application. Table 5.17 classifies the entrepreneurs into four categories on the basis of time taken by the Corporation to sanction the loan after the receipt of application. It includes the loans sanctioned within one month of receiving application, sanctioned within one to three months, sanctioned within four to six months and sanctioned after six months. Analysis reveals that the entrepreneurs whose loans were sanctioned within the period of one to three months after submission of loan application were quite satisfied (P value 0.050) in the financial assistance of the Corporation. In all other cases there is no significant relationship between the time taken by the Corporation to sanction the loan after the receipt of application and the level of satisfaction of the borrowers. It otherwise means that the quickness in the processing of loan application by the Corporation can positively influence the attitude of borrowers towards the financial assistance of the Corporation.

5.19.5 Time taken for Disbursement of Loan

The time taken for disbursement of the amount of loan after it is sanctioned is another relevant factor for measuring the borrower's level of satisfaction towards the financial assistance of the Kerala Financial Corporation. Three periods were identified (Table 5.17) for this purpose, such as, less than two weeks, two to four weeks and above four weeks.

Analysis reveals that the time taken by the Corporation to disburse the amount of loan after it is sanctioned does not have significant influence on the satisfaction level of the borrowers..

5.19.6 Attitude of the Corporation Officials

The attitude of the officials of Kerala Financial Corporation is an important qualitative factor, which influences the satisfaction level of borrowers. The level of satisfaction (on the attitude of officials of the Corporation) of the entrepreneurs was identified into three groups (Table 5.17) such as quite satisfied, somewhat satisfied and not satisfied. Analysis shows that those entrepreneurs, who were of the view that the attitude of the Corporation officials towards them was quite good, were also satisfied in the financial assistance of the Corporation too. However, in the case of entrepreneurs who were either some what satisfied or not satisfied in the attitude of the Corporation officials towards them, their satisfaction in the above matter in no way influence their level of satisfaction in the financial assistance of the Corporation.

5.19.7 Opinion on Rate of Interest

The rate of interest is a sensitive factor, which will highly influence the borrower's level of satisfaction. Many entrepreneurs expressed their lack of satisfaction in the financial assistance of Kerala Financial Corporation stating that the rate of interest charged by the Corporation is excessive. There were two opinions (Table 5.17) from the part of industrial units who have availed financial assistance from the Corporation relating to the rate of interest charged on the loans: 1) the rate of interest is high and 2) the rate of interest is reasonable. Two entrepreneurs who have given their opinion that the rate of interest charged by the Corporation is low, is also included in the reasonable category for the purpose of analysis.

Analysis (Table 5.17) clearly shows that those entrepreneurs, who have given their opinion that the rate of interest charged by Kerala Financial

Corporation on its loans is high, are not satisfied in the financial assistance of the Corporation. At the same time, those entrepreneurs who have given their opinion that the rate of interest charged by the Corporation on its loans is reasonable are satisfied in the financial assistance of the Corporation.

Out of the industrial units who were of the opinion that the rate of interest charged by Kerala Financial Corporation on its loans is high, 62.07 percent were not satisfied in the financial assistance of the Corporation. However, out of the industrial units who were of the opinion that the rate of interest charged by the Corporation on its loans is reasonable, 93.94 percent units were satisfied in the financial assistance of the Corporation.

The above findings indicate that the rate of interest charged on its loans by Kerala Financial Corporation highly influences the level of satisfaction of the borrowers. Thus interest is an area where ample opportunities are there before the Corporation to successfully market its financial products (loans) by making them more competitive and attractive in the market.

5.19.8 Release Schedule

The Kerala Financial Corporation generally release the amount of loan sanctioned to the borrowers in a number of installments. This policy is followed for the purpose of making sure that the amount of loan released by the Corporation is invested in assets at each and every stage of establishment of the industrial / business unit. Moreover, the Corporation will make sure that the promoter's contribution is already invested in assets before releasing the first installment of the loan sanctioned. Automatically each installment of loan will be released on the basis of progress of work in the establishment of the unit, certified by the technical wing of the Corporation.

Table 5.17 divides the number of installments in which the loan is released by the Corporation, into four categories such as one, two, three and

four and above. Analysis reveals that the number of installments in which the loan amount is released to the borrowers does not have any significant influence on their satisfaction levels.

5.19.9 Gestation period

Gestation period is the time allowed by the Corporation to the borrowers to commence the repayment of the loan taken. Different gestation periods are allowed by the Corporation to the borrowers depending upon their nature of business.

Table 5.17 divides entrepreneurs into two categories on the basis of gestation period allowed for commencing the repayment of loan, such as gestation period below one year and above one year. Analysis shows that the gestation period allowed by Kerala Financial Corporation for loan repayment significantly influence the level of satisfaction of borrowers in its financial assistance. Those entrepreneurs who had to start repayment within one year after availing their loans were found not satisfied (P value 0.023) in the financial assistance of the Corporation. However, those entrepreneurs who were allowed gestation period above one year were found to be quite satisfied in the financial assistance of the Corporation (p value 0.016). In this context, the Kerala Financial Corporation can think of allowing sufficient gestation period in the case of eligible entrepreneurs depending up on the nature of the industry / business.

5.19.10 Repayment Schedule

The repayment schedule of the loan taken from Kerala Financial Corporation is another relevant factor that should be considered while measuring the level of satisfaction of the borrowers in the financial assistance. Subject to some conditions, the Corporation allows the borrowers to choose the duration of repayment from among monthly, quarterly, half yearly and yearly options. Table 5.17 identifies three classes of repayment periods such as monthly, quarterly and half yearly repayment.

Analysis shows that those entrepreneurs who have made their repayment of loans on monthly basis were quite satisfied in the financial assistance of the Corporation (p value 0.00). Those entrepreneurs who made their repayment either quarterly or half yearly basis were found to be not satisfied in the financial assistance of the Corporation (p values 0.008 and 0.046 respectively). This result shows the fact that fixing monthly repayment schedule is advantageous and satisfactory to the borrowers.

5.19.11 Promptness in Repayment

Promptness in the repayment of loan taken determines the strength of the cordial relationship between Kerala Financial Corporation and its beneficiaries. Both the Corporation and the borrowers benefit from prompt repayment of the loan. Moreover, the Corporation also provides interest subsidy to those entrepreneurs who make prompt repayment. For the purpose of studying the relationship between the satisfaction level of the borrowers in the financial assistance of the Corporation and their promptness in repayment, entrepreneurs were identified (Table 5.17) into two groups such as those who were prompt in their loan repayment and those who were not prompt in their loan repayment.

Analysis shows that there is very high relationship between the satisfaction level of entrepreneurs who have availed loans from the Corporation and the promptness in the repayment of their loan. Those entrepreneurs who were prompt in the repayment of their loans were found to be quite satisfied (P value 0.00) in the financial assistance of the Corporation and those entrepreneurs who were not prompt in the repayment of their loans were found to be not satisfied (P value 0.00). In this context, the Kerala Financial Corporation may take steps to make sure that the borrowers remit their dues on time which in turn will enhance their satisfaction levels in the financial assistance and in effect result in a strong relationship between the two.

5.19.12 Sufficiency of the Loan

Whether the amount of loans provided by the Kerala Financial Corporation was sufficient for the purpose of the industrial / business units of the borrowers was another aspect analysed in order to study the level of satisfaction (Table 5.17) of the borrowers. There were two categories of entrepreneurs, such as, those whose loans from the Corporation were sufficient and those whose loans from the Corporation were not sufficient for their purpose of business. However, the analysis shows that the sufficiency of loans of Kerala Financial Corporation for the purpose of their business did not influence the satisfaction level of borrowers in the financial assistance of the Corporation.

5.19.13 Rates of Interest

Table 5.18 shows the interest rates charged by Kerala Financial Corporation on its loans. Analysis reveals that nearly 50 percent of loans provided by the corporation bear interest rates of either 12 percent or 12.50 percent. The range of the rate of interest shows a wide gap between the lowest rate of 9.5 percent and the highest rate of 19 percent. Most of the loans bearing high rates of interest were borrowed a few years back and the loans bearing low rates of interest were borrowed during recent years. This shows that Kerala Financial Corporation has reduced its rate of interest on loans along with the fall in the interest rates in the economy. However, the study shows that only a few units were getting loans at small rates of interest.

Table 5.18
Interest Rates of Sample Units

Rate of Interest	No. of firms	Percent
9.5	16	13.33
10.0	2	1.67
10.5	2	1.67
11.0	7	5.83
11.5	10	8.33
12.0	24	20.00
12.5	33	27.50
14.0	3	2.50
14.5	6	5.00
15.0	4	3.33
15.5	3	2.50
16.0	2	1.67
18.5	1	0.83
19.0	7	5.83
Total	120	100.00

Source: Primary data

Table 5.19 shows the satisfaction level of entrepreneurs who have availed loans from the Kerala Financial Corporation from the point of view of rate of interest. Analysis shows that those entrepreneurs whose mean value of rate of interest is 11.59 were satisfied in the financial assistance of the Corporation and those entrepreneurs whose mean value of rate interest was 13.62 were found to be not satisfied. Analysis indicates that the rate of interest charged by the Corporation on its loans have an inverse relationship

with the level of satisfaction of entrepreneurs who have availed financial assistance from it. Thus the magnitude of rate of interest is an area where the Kerala Financial Corporation can do much in order to enhance the satisfaction level of its borrowers.

Table 5.19
Mean Interest and the Level of Satisfaction

	Satisfied		Not satisfied		t	df	p
	Mean	SD	Mean	SD			
Interest	11.59	1.67	13.62	2.48	5.26	118	0.000

Source: Primary data

5.20 Level of Satisfaction – Logistic Regression Analysis

Success of a financial institution is strongly based on the level of satisfaction of its customers on the financial assistance provided. Awareness about the determinants of level of satisfaction of the entrepreneurs on the financial assistance provided by Kerala Financial Corporation, can suggest a solution for improving the financial activities of the Corporation in the industrial scenario of Kerala.

The Level of satisfaction of entrepreneurs was measured through a direct question whose answer was yes=1/no=0. Six independent variables were taken from a set of 20 variables after a refinement using Z test. The selected variables were the amount of loan taken, the amount of loan allowed, the opinion of entrepreneurs on the rate of interest of loan, the opinion of entrepreneurs about the adequacy of gestation period, the repayment schedule and the promptness of repayment. All these independent variables were taken as dummy variables.

Table 5.20**Level of satisfaction by Logistic Regression**

		B	S.E.	Sig.	Exp(B)
Amount of Loan Taken (Rs. In lakhs)	1 to 5	-1.222	0.929	0.188	0.295
	6 to 10	0.814	1.257	0.517	2.258
	11 to 20	2.674	1.262	0.034	14.491
Amount Allowed (of the amount applied for)	Full	2.586	1.096	0.018	13.282
	75 %	1.127	1.072	0.293	3.086
Rate of Interest	High	-3.025	1.115	0.007	0.049
Gestation Period	Below six months	-2.736	1.013	0.007	0.065
Repayment Schedule	Monthly	3.905	27.602	0.887	49.660
	Quarterly	1.400	27.615	0.960	4.055
Promptness of Repayment	Yes	4.958	1.189	0.000	142.304
	Constant	-5.140	27.619	0.852	0.006

Source: Primary data

The results of the Logistic Regression analysis are presented in Table 5.20. Analysis shows that five dummy variables are not significant in determining the satisfaction level of the entrepreneurs. To eliminate the variables, which did not show significant impact on the satisfaction level, backward selection technique was used. The final result of the logistic regression is presented in the table 5.21.

Table 5.21
Level of Satisfaction by Logistic Regression

		B	S.E.	Sig.	Exp(B)
Amount of Loan Taken (Rs. In lakhs)	1 to 5	-1.563	0.856	0.050	0.210
	11 to 20	2.511	1.070	0.019	12.318
Amount Allowed	Full	1.771	0.778	0.023	5.875
Rate of Interest	High	-3.300	1.153	0.004	0.037
Gestation Period	Below six months	-2.366	0.868	0.006	0.094
Repayment Schedule	Monthly	2.447	0.846	0.004	11.552
Promptness of Repayment	Yes	4.869	1.196	0.000	130.183
	Constant	-2.508	1.467	0.087	0.081

Source: Primary data

From the B values or Exp (B) values presented in Table 5.21, it can be said that when the amount of loan taken is comparatively larger, the level of satisfaction is high. This shows that the entrepreneurs who have taken large amount of loans consider the financing schemes of Kerala Financial Corporation attractive. The entrepreneurs who have taken small amount of loans consider the financing schemes of the Corporation as not at all attractive. This result of analysis underlines the change in the financing policy of the Corporation towards concentrating more on larger and safer loans and withdrawing from giving smaller and risky loans. While most of the small entrepreneurs are incapable of prompt loan repayments because of their not so strong financial position, the stringent recovery policies increases their dissatisfaction on the financial operations of the Corporation. Moreover the entrepreneurs who have availed small amount of loans are mainly depending on loans from the Corporation for meeting their capital requirements and hence any unfavorable attitude from the part of the

Corporation makes them fall into troubles, which in turn makes the Corporation unacceptable to them.

Table 5.21 also shows that those entrepreneurs, who have been allowed the full amount of loans asked for, are quite satisfied in the financial assistance of the Corporation. They are satisfied because the Corporation provided them with financial assistance according to their expectations. This clearly shows that if the Corporation can provide sufficient financial assistance to meet the requirements of the entrepreneurs, it will continue to be the best financial friend of the industrial enterprises.

The rate of interest on the loans of the Kerala Financial Corporation (table 5.21) is another variable, which highly influence the level of satisfaction of the entrepreneurs towards the financial assistance of the Corporation. Those entrepreneurs who were of the opinion that the rate of interest charged by the Corporation is high are not satisfied in the financial assistance of the Corporation. Even though the Corporation has reduced the rate of interest on its loans during the recent years, the same is not made applicable to many of the existing loans. Therefore, the benefits of interest reduction are available only to the fresh borrowers of the Corporation.

Generally, the industrial units need sometime to reach the stage of commercial production, once they have started their production. In the meantime, the repayment of loan may not be very prompt. This is why financial agencies allow gestation period for the commencement of the loan repayment. It is observed that (Table 5.21) those entrepreneurs who didn't get sufficient gestation period were not satisfied in the financial assistance of the Kerala Financial Corporation. Results shows that six months gestation period is not sufficient to empower the entrepreneurs to start the repayment of loan, and hence the Corporation has to enhance it on the basis of the requirement in each and every case.

Among the various repayment schedules allowed by the Kerala Financial Corporation for the repayment of its loan, monthly repayment is

most welcomed by the beneficiaries (Table 5.21). When monthly repayment of the loan is more convenient both for the beneficiaries and also for the Corporation, there is no reason why Kerala Financial Corporation should not insist on monthly repayment of the loans. The Corporation may do this by maintaining the freedom of the beneficiaries to choose their repayment schedule.

The highest level of satisfaction among the selected variables became evident in the case of entrepreneurs who were prompt in the repayment of their loans taken from the Corporation. Those entrepreneurs who were prompt in the repayment of their loans were quite satisfied in the financial assistance of the Corporation. Therefore, by taking steps to motivate the borrowers to make their repayment prompt by way of frequent monitoring and follow up measures, their satisfaction level can be enhanced by the Corporation.

Analysis of the level of satisfaction of the borrowers of Kerala Financial Corporation reveals various instances of lack of satisfaction. The Corporation failed to satisfy the borrowers of small amount of loans when it was successful in satisfying the larger ones. While the companies who borrowed from the Corporation were satisfied, both sole proprietary concerns and partnership firms were not satisfied. The gestation period allowed by the Corporation was not generally welcomed. A major area of dissatisfaction was the high rate of interest charged by the Corporation on its loans. Even though the fresh borrowers get loans at comparatively lower rate of interest, those who have taken loans five to ten years back have to pay very high rates of interest. Thus there are too many instances of lack of satisfaction, on various aspects of the financial assistance, expressed by the beneficiaries of the Corporation. On the basis of the above findings, the third null hypothesis, namely, the entrepreneurs being financed are not satisfied in the lending and the repayment processes of the Kerala Financial Corporation, is accepted.

5.21 Conclusion

The analysis made so far shows that the volume of financial assistance by the Kerala Financial Corporation during the period of study (1999-04) is not in tune with the growth in the industrial sector of Kerala. Various instances of lack of satisfaction from the part of the borrowers provide answer to the issue of declining financial performance of the Corporation. Therefore, the researcher tries to put forward certain suggestions (in Chapter VI), which will be helpful for the Corporation to make a self-evaluation and resort to remedial measures.

CHAPTER VI

SUMMARY, FINDINGS, CONCLUSIONS AND SUGGESTIONS

The modern economic development all over the world was initiated by the Industrial Revolution of the late 18th century in the developed countries. Later, the world economic crisis of 1930's gave momentum to the same. Realising the role of industrialisation in the economic development, many of the developing countries also started adopting a policy for promoting industrial development at home. Another spurt in the industrialisation process can be traced back to the period after the World War II, when efforts were taken by many countries to recover themselves from the war-torn states.

Importance of Capital in the industrial development was felt worldwide during the period after the World War I. A considerable amount of finance was required for the enormous task of reconstruction of the war-shattered economies of many countries that faced severe shortage of industrial capital. The problem of providing adequate financial facilities for their industries assumed importance because of the inevitable relationship between finance and development, that is, finance influences growth and growth drives finance.

On the global scenario, the International Bank for Reconstruction and Development (World Bank) and the International Monetary Fund (IMF) are the reputed financial agencies. On the Asian scenario, the Asian Development Bank (ADB) is performing a similar role by financing the developmental activities of the eligible and needy member-countries.

6.1 Industrialisation in India

In India, with its enormous labour resources, vast and varied natural resources and continental dimensions, the need for Industrialisation was so intense that development was thought to be synonymous with industrialisation. The slogan "Industrialise or Perish" has virtually become the main plank of planning and policies after launching the Second Five Year Plan. This has consequently led to various initiatives for Industrialisation of the country during the planning era. The conscious and deliberate attempt at industrialisation came into being in India with the broad-based Industrial Policy Resolution of 1956.

The modest industrialisation programme of the First Five Year Plan was largely concerned with building basic services like power and irrigation so that industrialisation of the economy is facilitated. The heavy industrial programme of the Second Plan has given emphasis on heavy industries in the public sector. The Third Plan focused on strengthening industrial as well as power and transport sector and on bringing about rapid changes in the industrial and technological fields.

The Fourth Plan was more or less oriented towards the completion of those projects to which investment commitments were already made. The Fifth Plan aimed at the rapid development of coal sector, production of mass consumption goods and the development of cottage and small scale industries. During the Sixth Plan, the industrial policy was modified and concessional finance schemes were introduced in the industrially backward areas. Emphasis in the Seventh Plan was given to rapid industrial growth by improving industrial productivity and encouraging industries having vast potential in domestic as well as export markets. The Eighth Plan has been marked with a little diversification, by emphasising on small-scale industries so as to remove regional disparities.

The Ninth and the Tenth Plans envisaged a comprehensive and coherent strategy for attaining industrial development through the measures of deepening and widening of economic reforms.

6.2 Industrial Finance in India

In India, the question of industrial finance began to receive prominent attention after independence. India needed sufficient financial inputs either owned or loaned so as to quench the thirst for short term, medium term and long term financial requirements of its industrial organisations. The weak and impoverished structure of finance retarded the whole process of industrialisation. Thus, a chain of innovative and specialised financial institutions have been set up after independence in order to abridge the gap of term and non-term finance so as to nurture, strengthen and encourage the tempo of industrialisation in the country as envisaged by our Five Year Plans.

The Government of India appointed a Banking Enquiry Committee in the year 1929. Its purview included not only the examination of the entire banking system of the country, but also an enquiry into the existing position of industrial finance in India and also into the part played by the Indian banks in its provision.

Starting from the mid 1950's, a number of long-awaited specialised financial institutions have been started in India. Functionally there are two types of specialised financial institutions in the Indian financial market, namely, developmental institutions and investment institutions. The Developmental institutions include the Industrial Finance Corporation of India Ltd. (1948), the Industrial Credit and Investment Corporation of India Ltd. (1955), the Industrial Development Bank of India (1964), the Industrial Reconstruction Bank of India (1985), the Small Industries Development Bank of India (1990) and State level institutions, namely, the State Financial Corporations and the State Industrial Development Corporations. The

Investment institutions include institutions such as the Unit Trust of India, the Life Insurance Corporation of India and the General Insurance Corporation.

6.3 Industrialisation in Kerala

With the British colonialism, Kerala economy developed a structure suited to the needs of colonial trade and did not develop the base for an advanced industrial sector. Industries of low productivity such as coir, cashew, tiles, etc., were given priority. There were two phases for the industrialisation in Kerala. The first phase was characterised by the pondering of small and cottage industries, which were dominated by agro-based units. The second phase started with certain policy initiatives of the government of Travancore. Industrialisation in the modern sense is mainly a twentieth century phenomenon in Kerala. The State Governments of different periods has encouraged industrialisation. But in spite of these efforts, due to the slow pace of industrial growth, Kerala remains, even today, one of the industrially and economically backward States in India.

Kerala has been facing an industrial slow down for the past few decades with the industry facing a near stagnation. The Techno-Economic Survey of Kerala conducted by the National Council of Applied Economic Research (NCAER) in 1962 identified three factors for the slow growth of the State as; the predominance of technologically backward small-scale units with meagre re-investible surplus, political instability of the State as a reason for the flight of industries, and the absence of raw materials (minerals), especially metallic minerals.

Generally speaking, the manufacturing industry in Kerala continues to be made up of traditional industries based on local raw materials. These industries provide most of the employment opportunities in the State. Another important aspect of the industrial structure of Kerala is the inadequate development of modern engineering and high-tech industries.

6.4 Industrialisation in North Kerala

Since the formation of the State of Kerala, the economy of Northern Kerala was comparatively lying behind. During the British period, the Northern district of Kozhikode was endowed with some major industrial establishments set up by Western missionaries and British estate owners. The trade relations of Malabar with the Western world have given momentum to the establishment of industries based on primary products even before independence.

In spite of this favourable position in the industrial history of Kerala, the Northern districts or the Malabar area could not maintain that tempo of industrial progress during the past few decades. This backwardness, along with sectoral bias and inter-regional disparities in development is the inspiration behind this study.

6.5 Statement of the Problem

The premier industrial financing institution in the State, namely, the Kerala Financial Corporation is facing a slowdown in its function. Over the years, the volume of financial assistance provided by the Corporation has been considerably declined. There is an aversion from the part of the prospective as well as the existing entrepreneurs to approach the Corporation for fulfilling their financial requirements. Moreover, the non-cordial 'loaner-loanee' relationship between the Corporation and its borrowers has made a negative image of the Corporation in the minds of its customers. This study is an enquiry into the causes of the slowdown in the functioning of the Corporation and the related issues and aims at providing the Corporation with information for improving its term lending function.

Balanced regional development in the matter of industrialisation is the base for the industrial development of an economy. Among the three regions of Kerala, the Northern part is lagging behind in industrial development when compared to its counter parts, that is, the Southern and

the Central regions. In the case of financial assistance from the Kerala Financial Corporation also the Northern Kerala is lagging behind. Therefore this study specifically looks into the issues relating to the financial performance of the Corporation in the Northern Kerala.

It is a well-known fact that Kerala is not an industrial-friendly State in the eyes of the industrialists on account of many reasons. However, the industrial scenario of Kerala is subject to major changes such as favourable Government policies, improving labour culture, favourable industrial infrastructure, etc., that may help rapid industrialisation in the State. In this context, the Kerala Financial Corporation, as the leading funding agency of industries in the State, shall play a more positive role in the industrial development of Kerala making use of the information provided by this study.

6.6 Significance of the Study

There were studies on industrial development, industrial financing and State Financial Corporations that studied in detail the various issues on a wider perspective. However, there were no similar studies that specifically looked into the role played by the most crucial role player in financing the industries of Kerala, the Kerala Financial Corporation, and its influence in the industrial development of Kerala.

Along with the liberalisation of the banking sector, commercial banks have started giving loans on more liberal terms even for longer periods. But their insistence on high collateral security coverage makes the entrepreneurs depend on the financial assistance of the Kerala Financial Corporation. The Corporation is still the leading long-term financier in the industrial scenario of Kerala and no significant study has so far been made that analyse specifically the role of the Corporation in the industrial development of Northern Kerala. This highlights the significance of the present study.

6.7 Objectives of the Study

The main objectives of the study are:

1. To study the present status of the industrial units in North Kerala financed by the Kerala Financial Corporation.
2. To study the major problems faced by the units financed by the Kerala Financial Corporation in North Kerala.
3. To study the opinion of entrepreneurs about the lending and the repayment processes of the Kerala Financial Corporation.
4. To assess the contribution of the Kerala Financial Corporation to the industrial units being financed.

6.8 Hypotheses

Based on the objectives mentioned above, the following hypotheses have been formulated for the study.

1. The Kerala Financial Corporation does not have significant impact in the industrial development of Kerala.
2. The Kerala Financial Corporation does not have significant impact in the industrial development of Northern Kerala.
3. The Entrepreneurs being financed are not satisfied with the lending and the repayment processes of the Kerala Financial Corporation.

6.9 Period of the Study

The study on the influence of Kerala Financial Corporation in the industrial development of Kerala with special reference to Northern districts is made for a period of five years from 1999-00 to 2003-04.

6.10 Methodology

A detailed analysis is made on the industrial development of Kerala with special reference to Northern Kerala. The State Gross Domestic Product (GDP), the State Net Domestic Product (NDP), the number of registered factories and the volume of industrial employment provided during the period 1999-04 are the indices used for studying industrial development. The GDP and the NDP are taken at current prices and constant prices.

The financial performance of the Kerala Financial Corporation was reviewed through the annual reports of the Corporation. For an empirical study of the financial performance of the Corporation, variables such as the number of loan applications received, the amount of loan applications, the number and the amount of loans sanctioned and the number and the amount of loans disbursed during 1999-04 period were used. The selected aspects were subjected to detailed analysis region-wise, industry-wise and amount-wise. Percentage shares and percentage growth rates based on 1998-99 were used for statistical analysis. A comparison was attempted, by plotting them in line graphs, of the financial performance of the Kerala Financial Corporation with the indices of industrial development.

For studying the borrower's attitude towards the Kerala Financial Corporation, a sample of 120 industrial units financed by the Corporation were selected equally from three Northern districts of Kerala, namely, Kannur, Kozhikode and Malappuram. These three districts were selected at random from the five Northern districts of Kerala. The sample industrial units were selected by the method of systematic sampling from the list provided by the Corporation. Data was collected through a structured interview schedule. The interview schedule included questions on the profile of the industrial unit, the profile of the entrepreneur, the financial aspects and the opinion of the entrepreneurs on various aspects in the functioning of the Corporation, which are related to the study.

Twenty variables were identified as influencing the satisfaction level of the entrepreneurs of the industries financed by the Kerala Financial Corporation. From the point of view of level of satisfaction, the borrowers were classified into two groups, namely, *satisfied* and *not satisfied*. Z test was applied to find out the difference of the two groups in the twenty variables. Logistic Regression Analysis was conducted with the variables that exhibited difference. Logistic Regression Analysis provides the combined effect of selected variables on the satisfaction level of the entrepreneurs in the financial assistance provided by the Kerala Financial Corporation.

6.11 Limitations of the Study

The study may suffer from the following limitations;

1. The study is based on sampling, and therefore, all limitations of sampling theory are applicable to it as well.
2. Direct personal interview method is used for the collection of primary data. Due to personal bias and constraints the respondents need not necessarily disclose full and complete information. However, cross-questioning has helped in maintaining this risk to the minimum.
3. Most of the information used is qualitative in nature such as satisfaction levels and hence all limitations of studies based on qualitative information are applicable to this study also.

6.12 Scheme of Reporting

The whole study is presented in six chapters. The first is the introductory chapter. It gives a brief outline of the study in terms of importance, objectives, hypotheses, methodology, etc. In the second chapter the literature reviewed for the purpose of this study are presented. An overview of the industrial development in Kerala is given in the third chapter. The fourth chapter gives an overview of the Kerala Financial Corporation.

The study of the role of Kerala Financial Corporation in the industrial development of Kerala and Northern Kerala is made in the fifth chapter. The last chapter contains summary of findings and suggestions.

6.13 History of Industrial Development in Kerala

Till the early decades of the twentieth century, industrial development in Kerala mostly centered on a few plantation crops like coconut, cashew nut etc. Almost all traditional industries were regionally concentrated on account of the geographical, historical and sociological factors as well as resource endowments. However, attempts were made by the consecutive Governments to make Kerala a prospective industrially attractive State. The landmarks in the industrial development of Kerala include the sanctioning of five Industrial Estates in the beginning of the Second Plan, the introduction of Investment Subsidy in the industrially backward districts and the establishment of two State level financial and developmental organisations, namely, the Kerala Financial Corporation in the year 1953 and the Kerala State Industrial Development Corporation in the year 1961.

The present industrial scenario of Kerala witnesses serious efforts from the part of the State Government to identify new opportunities and to equip itself to meet the emerging challenges. The important agencies / departments currently engaged in the industrial promotion in the State include:

- Kerala state Industrial Development Corporation
- Kerala Financial Corporation
- Small Industries Development Bank of India
- Kerala Industrial Infrastructure Development Corporation
- Directorate of Industries and Commerce
- Small Industries Development Corporation
- Small Industries Service Institute

- Kerala Industrial and Technical Consultancy Organisation and
- Centre for Management Development

The Kerala Financial Corporation, as the premier institution in the State financing small and medium enterprises, performs a crucial role in the industrialisation process of Kerala. It acts in the line of a developmental bank for accelerating the industrialisation in the State by providing financial assistance, project advices and similar other helps.

6.14 Present Industrial Scenario in Kerala

Industrialisation has a major role in the economic development of developing States like Kerala. It can absorb excess labour power and radiate stimuli throughout the economy of the State and can serve as an effective instrument to uplift the socio-economic conditions of the people. With this objective in mind the different Governments in power have resorted to various policy measures. In the following pages an attempt is made to analyse the present industrial scenario in Kerala.

6.14.1 Sectoral Distribution of State GDP and NDP

The contribution of different sectors of Kerala economy towards the State Gross Domestic Product shows a decreasing trend in the primary sector, an increasing trend in the tertiary sector and stagnation in the secondary sector. In spite of the stagnant percentage increase in the secondary sector, the growth rate shows positive results. The overall growth rate of the economy is much above the growth rate of the secondary sector because of the tremendous rate of growth recorded by the tertiary sector.

The growth in the industrial sector of Kerala is studied by dividing the industry into three categories such as the Manufacturing, the Electricity, Gas and Water supply and the Construction Industries. Among the three categories of industries, the contribution of the manufacturing industry to the GDP has sharply declined when the contribution of the electricity, gas and

water supply and the construction industries has gone up. In the case of rate of growth in the contribution to the GDP, the manufacturing industry shows mixed trends of decline and recovery, whereas the electricity gas and water supply industry has recorded a tremendous growth. The construction industry is not far behind.

The analysis of sectoral distribution of Net Domestic Product both at current and constant prices during the period 1999-04 shows that there is a gradual drop in the percentage contribution of the primary sector in the State NDP. The contribution of the secondary sector to the NDP has remained more or less stagnant. While the primary sector has witnessed a declining trend in the case of rate of growth, the other two sectors have recorded growth.

The share of contribution of the three categories of industry towards the NDP shows that there is a gradual decline in the contribution of the manufacturing industry, when the electricity, gas and water supply and the construction industries have recorded higher percentage of contribution year after year.

6.14.2 Regional Variations in State NDP

Attempt is made to study the industrial development of Northern Kerala by dividing the State into three regions such as the Southern, the Central and the Northern regions. The Southern region consists of the districts of Thiruvananthapuram, Kollam, Pathanamthitta, Alappuzha, and Kottayam. The Central region consists of Idukki, Ernakulam, Thrissur, and Palakkad, and the Northern region consists of the districts of Malappuram, Kozhikode, Kannur, Wayanad, and Kasargod. The parameters selected for the purpose of analysis are; the contribution of secondary sector in the State NDP at current and constant prices, the number of registered factories and the volume of industrial employment offered during the period.

The analysis shows that the contribution of the Northern region to NDP is lesser when compared to that of the Central and the Southern regions during the five-year period under study. The growth rate also exhibits the same pattern of change. When the overall growth rate in NDP is compared with that of the three regions, it is evident that the growth rates of both the Southern and the Central regions were above the State average while the growth rate of the Northern region is much below it. This presents the comparative backwardness of the Northern region in its contribution to the State NDP.

6.14.3 Regional Variations in the Number of Factories

In the case of the number of registered factories, the Northern region of Kerala is far behind when compared to the Southern and the Central regions. The growth in the number of registered factories shows a disappointing picture of the prospects of industrial development of Kerala. There is no considerable growth in the number of registered factories corresponding to the growth seen in the share of contribution of the industrial sector towards NDP.

6.14.4 Regional Variations in Employment

Out of the total employment provided by the industrial sector of Kerala, almost one half was from the Southern region and the Northern region recorded a very low share during the same period. The volume of employment provided by the industrial sector of Kerala declined at a rate faster than the rate at which the number of factories declined.

In short, it is evident that the Northern region fell backward, when compared to the Southern and the Central regions, in the matters of share of contribution of secondary sector in State NDP, the growth rates in the above contributions, the share of different regions in the number of registered factories and the share of different regions in the provision of employment.

6.15 Kerala Financial Corporation

The efficiency of a developed financial system is an indicator of economic development of a country. The Indian financial sector today comprises of an impressive network of financial institutions and a wide range of financial instruments. As the major players in the financial system, the development banks are concentrating on long term lending, that too, for feeding the financial requirements of the industrial sector. The need for establishing financial institutions was felt in every country. In under-developed countries the need for such institutions was much more due to a large number of organisational and financial problems inherent in the process of industrialisation. The existing banks, with their resources were unable to make advances to industries on a long-term basis. This led to the necessity of setting up special financial institutions also known as "Development Banks".

The State Financial Corporations are State level financial institutions operating as regional development banks, which have been playing an effective role in the development of small and medium enterprises in the respective States. The Travancore-Cochin Financial Corporation was established on December 1, 1953, under the State Financial Corporations Act 1951. This was later renamed as Kerala Financial Corporation, consequent to the re-organisation of States, in 1956. The Kerala Financial Corporation has its headquarters at Thiruvananthapuram, and has 16 branch offices covering all the districts of the State. It aims at the industrialisation of Kerala by providing long-term loans to start small and medium scale industrial units and also to expand / diversify and to modernise the existing industries.

The Kerala Financial Corporation does not have the practice of giving hundred percent of the capital requirements of an industrial concern. The Corporation prescribes certain minimum contribution from the part of entrepreneurs. The Corporation starts its lending operations to a promoter by

receiving a properly filled-in application. Then it is processed at the district office and a preliminary interview with the applicant is made. If the project is technically feasible and the legal documents are proper, then the loan is sanctioned. Generally the term-loan sanctioned is disbursed in different installments according to the progress in the promotional work.

6.16 Financial Performance of Kerala Financial Corporation

The financial assistance made by the Kerala Financial Corporation to the industrial sector (including services) is studied from three different but inter-related angles, namely; (1) the number and the amount of loan applications received, (2) the number and the amount of loans sanctioned and (3) the number and the amount of loans disbursed during the study period (1999-2004). The study shows that the number of loan applications received by the Corporation during the study period sharply declined and the amount of loan applied for from the Corporation during the same period shows a more or less stable trend. The aversion from the part of the prospective entrepreneurs in approaching the Corporation for financial assistance is influenced by the new policy of the Corporation to concentrate more on safer loans of higher amount.

The number and the amount of loans sanctioned and disbursed by Kerala Financial Corporation have also declined during the period of study. This is more so in the case of loans of smaller amounts. In the case of loans of higher amounts, growth is visible over the period of study, of course, with slight ups and downs.

A comparison of the shares of different industries in the total amount of loan sanctioned by the Corporation shows that the major share go to mining, food products, rubber and rubber-based products, services and others.

Analysis of the financial performance of the Corporation from different angles, such as, the number and the amount of loan applications received,

the number and the amount of loans sanctioned and the number and the amount of loans disbursed shows that there is a drastic decline in their growth rates in all the three regions throughout the study period. Regarding the regional distribution of amount of loans applied for from the Corporation, the share of the Northern region declined at a faster rate when compared to the Southern and the Central regions.

The study indicates that the Northern region suffered a heavy set back in its percentage share and growth rate in the amount of loans sanctioned by Kerala Financial Corporation. Only the Central region shows growth in the amount of loans sanctioned, and the Southern and the Northern regions recorded negative growth rates in almost all the years under study. Similarly, the amount of loans disbursed by the Corporation in the Northern region is the lowest when compared to the Southern and the Central regions. The study of regional variation in the cases of the number and the amount of loan application, the number and the amount of loans sanctioned and the number and the amount of loans disbursed reveals the comparative backwardness of the Northern region.

6.17 Role of Kerala Financial Corporation in the Industrial Development of Kerala

As the Kerala Financial Corporation is the major institution financing industries in Kerala and the availability of finance is one of the key factors of industrial development, the Corporation has to continue to perform its function of supporting the industrial sector in the State. In this context, it is essential that the Kerala Financial Corporation should go through a self-study, which may throw lights on the shortcomings in its financial performance. This study is expected to be instrumental in channelising the attention of the Corporation along this direction.

The extent of industrial development is studied with the help of certain economic indices, such as, the growth in the State Net Domestic Product at

current and constant prices, the number of registered factories and the volume of employment provided by the industrial sector of Kerala.

6.17.1 State NDP and KFC Finance

Analysis shows that the percentage share of the secondary sector in NDP at current and constant prices in Kerala increased slowly and steadily during 1999-04. However, the volume of finance by Kerala Financial Corporation during the same period fell significantly, indicating the declining role of the Corporation in the industrial development of Kerala.

The percentage share of the secondary sector in NDP at current prices in North Kerala also recorded gradual growth indicating that the industrial sector of North Kerala is also on the path of development. However, during the same period the percentage share of loan disbursed by Kerala Financial Corporation in North Kerala went down indicating the declining role of the Corporation in the industrial development of Northern Kerala.

6.17.2 Number of Registered Factories and KFC Finance

Analysis of the amount of loan disbursed by the Kerala Financial Corporation and the number of registered factories in Kerala shows that the amount of loan disbursed by the Corporation during the period of study did not result in any increase in the number of registered factories. Similarly, in North Kerala, the lack of growth in the number of registered factories in tune with the amount of loan disbursed by the Corporation during the same period shows that the latter does not have any significant impact on the former.

6.17.3 Volume of Industrial Employment and KFC Finance

Comparison of the volume of financial assistance of the Kerala Financial Corporation and the volume of employment in the industrial sector of Kerala and North Kerala during the study period indicates that, the

financial assistance provided by the Corporation every year do not result in any increase in the industrial employment.

The above analysis reveals that there was growth in the industrial sector of Kerala and North Kerala during the period of study. However, the volume of financial assistance from the part of Kerala Financial Corporation during the same period came down. Similarly the loans provided by the Corporation during different years under study did not result in any increase either in the number of registered factories or in the industrial employment. On the basis of these findings the first and the second null hypotheses, namely, the Kerala Financial Corporation does not have significant impact in the industrial development of Kerala and North Kerala are accepted.

6.18 Role of Kerala Financial Corporation in the Industrial Development of Northern Kerala

Primary data on four aspects, such as, profile of the unit, profile of the entrepreneur, financial aspects and general aspects were collected from the respondents through the interview schedule. Profile of the unit (organisational profile) consisted of information about the sample organisation, profile of the entrepreneur consisted of personal information about the owner (entrepreneur), financing profile consisted of information about the financial assistance of Kerala Financial Corporation, and general profile consisted of information about other aspects of the industrial / business unit.

The sample of the study consisted of industrial units financed by the Kerala Financial Corporation, which included sole proprietorship concerns, partnership firms and companies. Samples were collected from 40 units selected from each of the three districts with the help of systematic random sampling. Samples were collected from firms of different nature such as food and beverages, hotels and restaurants, textiles and readymade, plastic-based units, wood-based units, paper and printing units, rubber products, transport services, engineering-based units and others.

The organisational level variables analysed are; the type of business organisation, the nature of business, the number of employees employed, the purpose of taking loan from the Corporation, and the amount invested in various assets in the unit.

The industrial units studied include, sole proprietorship business concerns, partnership firms and companies. On the basis of the nature of business there were eight categories of units covered under the study.

The industrial units have taken loans either for the establishment of their unit, for the expansion of the existing unit or for the modernisation of the existing unit. Analysis shows that majority of the firms have availed loans from the Corporation for the purpose of establishing their new business unit.

Analysis shows that more than fifty percent of units financed by the Kerala Financial Corporation have invested only a small amount (up to rupees ten lakhs) in land and building. It further shows that majority of the entrepreneurs financed by the Corporation belong to middle age group (41-60) and nearly one half of the entrepreneurs have either graduation or post graduation. The higher educational qualification of nearly one half of the entrepreneurs shows that more and more educated people are attracted to the industrial sector. Analysis also shows that more than one half of entrepreneurs financed by the Corporation did not have any previous business experience or that they are first generation entrepreneurs and two-thirds of the entrepreneurs did not undergo any training at all.

6.18.1 Analysis of Financial Aspects

Various financial aspects, such as, different sources from which the amount of capital had been mobilised, the amount of loan taken from the Kerala Financial Corporation, the difference between the amount of loan applied for and the amount of loan sanctioned, the period of repayment of the loan taken from the Corporation, the purpose for which loan was availed, the level of satisfaction of the entrepreneurs in the capital assistance of the

Corporation, the time taken for sanctioning loans after submission of application, the time taken for disbursement of loans sanctioned, the level of satisfaction of the entrepreneurs in the co-operative attitude of the Corporation officials, the rate of interest on the loan taken, the opinion of borrowers about the rate of interest charged by the Corporation, the number of installments in which the loan was released, the gestation period allowed in commencing repayment of the loan, the repayment schedule of loan, promptness of the entrepreneurs in the repayment of loan, the sufficiency of the amount of loan taken from the Corporation for the purpose of the business, the profit status of the unit and the extent of installed capacity utilised by the unit during the period of study were analysed.

The industrial units under study mobilised their capital from different sources, such as, own funds, loans from the Kerala Financial Corporation, bank loans and other sources.

The sufficiency of financing the requirements of borrowers by the Kerala Financial Corporation is studied by comparing the proportion between the amount of loan applied for by the industrial units, the amount of loan sanctioned and the amount of loan disbursed by the Corporation. Analysis reveals that the Corporation has sanctioned only 94.48 percent of the requirements of the borrowers.

In the total capitalisation, the promoter's contribution has accounted for the major share of investment in the units. The contribution from the part of the Kerala Financial Corporation comes only in the second place. The working capital requirements of the units were mainly met from the commercial banks, and in this, the share of the Corporation is very low.

The inconsistency and the general trend of deterioration in the volume of financial assistance by the Kerala Financial Corporation may be due to two reasons. The first is the change in the behaviour of the lender, the Kerala Financial Corporation in its lending operations in the form of intentional curtailment in the number of loans, and the second is the change

in the behaviour of the borrowers in the form of not approaching the Corporation for loans. There is a policy change from the part of the Corporation towards emphasising more on the quality of loans rather than their quantity. The borrowers do not prefer the Corporation for financial assistance because they are no longer attracted by the lending policies of the Corporation. A search for the reasons for this predicament reveals the fact that their satisfaction levels in the financial assistance of the Corporation has declined. Hence the study of satisfaction of those who have availed financial assistance from the Corporation and the factors influencing their satisfaction level has been made.

6.18.2 Financial Aspects and the Level of Satisfaction of Borrowers

The level of satisfaction of the borrowers who have availed financial assistance from the Kerala Financial Corporation has been measured on a five-point scale such as very much satisfied, satisfied, neutral, dissatisfied and very much dissatisfied. Majority of entrepreneurs (52.50 percent) were satisfied in the financial assistance of the Corporation. For the purpose of analysis, the entrepreneurs who have availed financial assistance from the Corporation were classified into two categories namely *satisfied*, and *not satisfied* as the ratio between them was found to be nearly 50: 50. For identifying the reasons for the satisfaction / dissatisfaction of entrepreneurs on the financial assistance of the Corporation, 20 variables were identified from four areas. The four areas were the unit profile, the personal profile, the financial aspects and the general aspects.

6.18.2.1 Type of Business Organisation, Amount Invested, etc. and the Level of Satisfaction

Analysis reveals that the Kerala Financial Corporation has been successful in satisfying the financial requirements of companies whereas it has failed to satisfy the financial requirements of the sole proprietorship concerns and the partnership firms. The industrial units, who have invested on a large scale in their industrial unit, were more satisfied than those who

have invested less, in the financial assistance of the Corporation. The entrepreneurs who made profit were satisfied in the financial assistance of the Corporation. The study also shows that there is no significant relationship between the extent of capacity utilisation by the industrial units and their level of satisfaction in the financial assistance of the Corporation.

6.18.2.2 Age, Educational Qualification and Experience and the Level of Satisfaction

The age and educational qualification of the borrowers does not show any significant relationship with their level of satisfaction in the financial assistance of the Corporation. Analysis also reveals that those entrepreneurs who did not have any previous business experience were satisfied in the financial assistance of the Corporation.

6.18.2.3 Amount of Loan Taken and the Level of Satisfaction

Analysis also shows that the higher the amount of loan taken from the Corporation, the higher the level of satisfaction of the borrowers and vice versa. As the size of loans increases, the satisfaction level also progresses. It gives the message that the schemes of financial assistance do not satisfy small entrepreneurs when it satisfies large entrepreneurs.

6.18.2.4 Amount of Loan Sanctioned, Period of Repayment, etc. and the Level of Satisfaction

The study indicates that those entrepreneurs who have been given whatever amount of loan they have asked for were fully satisfied in the financial assistance of the Corporation. However, the period of repayment allowed to its beneficiaries does not have any significance in their level of satisfaction in the financial assistance of the Corporation. It also reveals that the entrepreneurs whose loans were sanctioned within the period of one to three months after submission of the application were quite satisfied in the financial assistance of the Corporation. This indicates that the quickness in the processing of loan application by the Corporation could positively

influence the attitude of borrowers towards its financial assistance. However, the time taken by the Corporation to disburse the amount after the loan has been sanctioned does not have any significant influence on the satisfaction level of the borrowers.

6.18.2.5 Attitude of KFC Officials and Rate of Interest and the Level of Satisfaction

Those entrepreneurs, who were of the view that the attitude of the Kerala Financial Corporation officials towards them was quite good, were also satisfied in their financial assistance. Analysis shows that those entrepreneurs, who have given their opinion that the rate of interest charged by the Corporation on its loans was high, were not satisfied in the financial assistance of the Corporation. At the same time, the entrepreneurs who have given their opinion that the rate of interest charged by the Corporation on its loans was reasonable were satisfied in its financial assistance. Interest is an area where ample opportunities are there for the Corporation to successfully market its financial products (loans) by making them more competitive in the market, and attractive to the entrepreneurs.

6.18.2.6 Gestation Period and the Level of Satisfaction

Regarding the repayment of loans, those entrepreneurs who had to start repayment within one year after availing loans were found not satisfied and those who were allowed gestation period above one year were found quite satisfied in the financial assistance of the Corporation. In this context, the Kerala Financial Corporation can think of allowing sufficient gestation period in the case of eligible entrepreneurs.

6.18.2.7 Repayment Schedule and the Level of Satisfaction

The repayment of loans on monthly basis was quite welcomed by the borrowers of the Kerala Financial Corporation. The entrepreneurs who made their repayment quarterly or half yearly were found not satisfied in the financial assistance of the Corporation.

6.18.2.8 Promptness in Repayment and the Level of Satisfaction

Analysis shows that those entrepreneurs who were prompt in the repayment of their loans were found quite satisfied and those who were not prompt were found not satisfied in the financial assistance of the Corporation. It is also observed that the sufficiency / insufficiency of loans of the Corporation for the purpose of their business did not influence the satisfaction level of the borrowers in the financial assistance of the Corporation.

6.18.2.9 Rate of Interest and the Level of Satisfaction

Analysis shows that nearly one half of loans provided by the corporation bears interest rates of either 12 percent or 12.50 percent. The range of rate of interest shows a wide gap between the lowest rate of 9.5 percent and the highest rate of 19 percent. Most of the loans bearing high rates of interest were borrowed a few years back and the loans bearing low rates of interest were borrowed in the recent years. This shows that the Kerala Financial Corporation has reduced its rate of interest on loans along with the fall in the interest rates in the financial market. However, out of the units financed by the Corporation, only a few were getting loans at small rates of interest. Analysis indicates that the rate of interest charged by the Corporation on its loans has an adverse relationship with the level of satisfaction of the entrepreneurs who have availed financial assistance from the Corporation.

6.18.3. Logistic Regression Analysis of the Level of Satisfaction

The level of satisfaction of the entrepreneurs was measured through a direct question, "are you satisfied in the financial assistance of the Kerala Financial Corporation?" The answer was yes=1/no=0. Six independent variables were taken from a set of 20 variables after a refinement using Z test. They were the amount of loan taken, the amount of loan allowed, the opinion of the entrepreneurs on the rate of interest of loan, the opinion of

entrepreneurs about the adequacy of gestation period, the repayment schedule and the promptness of repayment. All the independent variables were taken as dummy variables. The significant six variables were taken by way of backward selection. In order to study the combined effect of six selected variables on the level of satisfaction of the entrepreneurs, Logistic Regression was applied.

The Logistic Regression also shows that the entrepreneurs who have taken loans of large amount consider the financing schemes of the Kerala Financial Corporation attractive. However the entrepreneurs who have taken loans of small amount consider the financing schemes of the Corporation not at all attractive. This result of analysis underlines the change in the financing policy of the Corporation towards concentrating more on larger and safer loans and withdrawing from giving smaller and risky loans.

While most of the small entrepreneurs are incapable of prompt loan repayments because of their not so strong financial position, the stringent recovery policies increases their dissatisfaction against the financial operations of the Corporation. Moreover, the entrepreneurs who have availed loans of small amount were mainly depending on loans of the Corporation for meeting their capital requirements and hence any unfavorable attitude from the part of the Corporation makes them fall into troubles, which in turn, makes the Corporation unacceptable to them.

Those entrepreneurs, who have been allowed the full amount of loans asked for, were quite satisfied in the financial assistance of the Corporation because they have availed financial assistance according to their expectations. This shows that if the Kerala Financial Corporation can provide sufficient financial assistance to meet the requirements of the entrepreneurs, it will continue to be the best financial friend of the industrial enterprises.

Those entrepreneurs who were of the opinion that the rate of interest charged by the Corporation was comparatively high were not satisfied in the financial assistance of the Kerala Financial Corporation. Even though the

Corporation has reduced the rate of interest on its loans recently, the same is not made applicable to many of the existing loans. Therefore, the benefits of interest reduction are available only to the fresh borrowers from the Corporation.

Analysis shows that those entrepreneurs who didn't get sufficient gestation period before the commencement of their loan repayment were not satisfied in the financial assistance of the Corporation. It also shows that the six months gestation period was not sufficient to empower the entrepreneurs to start the repayment of loan, and hence the Corporation has to enhance it on the basis of the requirements in each and every case.

Among the various repayment schedules allowed by the Kerala Financial Corporation for the repayment of its loan, monthly repayment is most welcomed by the beneficiaries. When monthly repayment of loan is more convenient both for the Corporation and also for the beneficiaries, the Corporation may insist on monthly repayment of loan, of course, by maintaining the freedom of the beneficiaries to make their option.

Those entrepreneurs who were prompt in the repayment of their loans were quite satisfied in the financial assistance of the Corporation. So by taking steps to motivate the borrowers to make their repayment prompt and by frequent monitoring and follow-up measures, the Corporation can enhance their satisfaction level.

Analysis of the level of satisfaction of the borrowers of Kerala Financial Corporation reveals various instances of lack of satisfaction. The Corporation failed to satisfy the borrowers of loans of small amount when it was successful in satisfying the larger ones. While the companies who borrowed from the Corporation were satisfied, both sole proprietary concerns and partnership firms were not satisfied. The gestation period allowed by the Corporation was not generally welcomed. A major area of dissatisfaction was the high rate of interest charged by the Corporation on its loans. Even though the fresh borrowers get loans at comparatively lower rate of interest,

those who have taken loans five to ten years back have to pay very high rates of interest. Thus there are too many instances of lack of satisfaction, on various aspects of the financial assistance, expressed by the beneficiaries of the Corporation. On the basis of the above findings the third null hypothesis, namely, the entrepreneurs are not satisfied in the lending and the repayment processes of the Kerala Financial Corporation, is accepted.

6.19 Problems Faced by the Units

The industrial / business units financed by the Kerala Financial corporation suffers from many problems such as, lack of demand, shortage of raw materials, lack of power, lack of skilled workers, difficulties in procuring trade licenses, etc. The problems specifically raised by the respondents include the following:

- The Corporation insists on too much collateral security when compared to the amount of loan availed.
- The Corporation undervalues the properties mortgaged by the borrowers as security on their loans.
- The documentation of loan agreement with the Corporation involves too many complicated and tiresome procedures.
- The frequent power failures adversely affect the smooth production process of the industrial units.
- The process of getting clearances from various Government offices is very cumbersome.
- The Corporation follows a policy of collecting the interest element of the earlier installments of loans from the subsequent installments released.

- The penal interest of two percent charged by the Corporation on the defaulted amount is excessive and it causes a heavy burden on the borrowers.
- The rate of interest charged by the Corporation is very high, when compared to the rate charged by other financial agencies.
- The revised rates of interest charged on new loans are not made applicable to the existing loans.
- The practice of giving many loans to similar projects in the same locality by the Corporation results in unhealthy competition among the customer units.
- In the case of vehicle loans, the seizure of automobile vehicles by the Corporation, on the default of a few installments, makes the defaulters incapable of further remittances.
- The Corporation does not take effort in the orientation of the entrepreneurs about various schemes like National Equity Fund.
- The Corporation does not have easy schemes of working capital loans as in the case of banks.
- The Corporation does not permit the units to make higher amounts of repayment than the amount of installment fixed.
- The ability to furnish collateral security rather than the business intention of the applicant is the major criterion in granting loans by the Corporation.

6.20 Major Findings of the study

The following are the major findings of the study.

- The rate of growth in the industrial sector of Kerala is higher than the rate of growth in the primary sector but it is less when compared to the tertiary sector.
- The rate of growth in the manufacturing industry is less when compared to the growth in the other two sectors of industry, namely, gas, electricity and water supply industry and construction industry.
- The contribution of the Northern region to the State NDP is lesser when compared to that of the Central and the Southern regions.
- There is heavy decline in the number of registered factories and the volume of industrial employment in Kerala during the period of study.
- The number of registered factories and the volume of employment in Northern Kerala is lower than that of the Central and the Southern regions.
- The number and the amount of loan applications from the part of industrial / business organisations came down during the period of study.
- The number and the amount of loans sanctioned and disbursed by the Corporation declined during the period of study.
- The rate of decline in the amount of loans sanctioned and disbursed by the Corporation in Northern Kerala during the period of study is higher than that of the Central and the Southern regions.
- The additional loans given by the Corporation every year do not result in any increase in the number of registered factories and the volume of industrial employment.
- Among the different forms of business organisations, the companies are more satisfied than the sole proprietorship concerns and partnership firms.

- The majority of borrowers of the Kerala Financial Corporation have availed their loans for starting new industrial / business units.
- Two-thirds of the entrepreneurs who borrowed from the Corporation belongs to the age group of 41-60.
- One-half of the entrepreneurs who were financed by the Kerala Financial Corporation were either graduates or post graduates.
- It is found that 52.50 percent of the entrepreneurs financed by the Corporation were not having previous business experience.
- Two-thirds of the entrepreneurs financed by the Corporation did not undergo any training before starting their business unit.
- Regarding under-sanctioning of loans, for 5.52 percent of borrowers, loans were not sanctioned according to their requirements.
- Only 25 percent of the assisted units have taken working capital loans from the Corporation.
- Industrial / business units of larger size were more satisfied in the financial assistance of the Kerala Financial Corporation than the smaller units.
- Industrial / business units that have made profit were more satisfied in the financial assistance of the Kerala Financial Corporation than the units that did not have profits.
- The age and the educational qualification of the entrepreneurs do not have any influence on their level of satisfaction.
- The entrepreneurs who do not have any previous business experience were found to be more satisfied than the entrepreneurs who were experienced.

- Industrial units that have availed loans of larger amount were found to be more satisfied than the units that have taken loans of smaller amount.
- Those units that availed the entire amount of loan asked for from the Corporation were more satisfied.
- Those units that received loans within a period of three months after the submission of application were found to be more satisfied.
- The entrepreneurs who were satisfied in the co-operative attitude of the officials of the Corporation were satisfied in the financial assistance of the corporation as well.
- The entrepreneurs who were of the opinion that the rate of interest charged by the Corporation on its loans is high were not satisfied in the financial assistance of the Corporation.
- Those entrepreneurs who have availed gestation period of more than one year were found to be more satisfied in the financial assistance of the Corporation.
- Those entrepreneurs who made their repayment of loans in monthly installments were more satisfied in the financial assistance of the Corporation.
- It is found that the industrial / business units who made prompt repayments were satisfied in the financial assistance of the corporation.

6.21 Conclusions of the study

Based on the findings listed above, the following conclusions shall be arrived at:

Kerala has been facing an industrial slow down for the past few decades with industry facing near stagnation. Since the formation of the Kerala State, the economy of Northern Kerala was comparatively lying behind and the area could not maintain industrial progress during the past few decades.

The contribution of different sectors of Kerala economy towards the Gross Domestic Product showed a decreasing trend in the primary sector, an increasing trend in the tertiary sector and stagnation in the secondary sector. Among the three categories of industries, the contribution of the manufacturing sector to the GDP sharply declined when the contribution of the electricity, gas and water supply industry and the construction industry went up.

The contribution of the Northern region to the State NDP is less when compared to the Central and the Southern regions during the five year period under study. The growth rate also exhibits the same pattern of change.

In the case of the number of registered factories, the Northern region of Kerala is far behind the Southern and the Central regions. The growth in the number of registered factories shows a disappointing picture of the prospects of industrial development of Kerala. There is no considerable growth in the number of registered factories corresponding to the growth seen in the share of contribution of industrial sector towards the State NDP.

Out of the total employment provided by the industrial sector of Kerala, almost one half was from the Southern region. The Northern region recorded a low share of 19.12 percent during the same period. The volume of employment provided by the industrial sector of Kerala declined at a rate faster than the rate at which number of factories declined.

There is a drastic decline in the number and the amount of loan applications received, the number and the amount of loans sanctioned and

the number and the amount of loans disbursed by the Kerala Financial Corporation during the study period. Regarding the regional distribution of amount of loans applied for by the units, sanctioned and disbursed by the Kerala Financial Corporation, the share of the Northern region declined at a faster rate when compared to the Southern and the Central regions.

When the industrial sector of Kerala had grown during the period of study, the volume of financial assistance by the Kerala Financial Corporation during the same period fell down significantly indicating the declining role of the Corporation in the industrial development of Kerala. Similarly, the secondary sector in North Kerala recorded growth, but during the same period, the percentage share of loan disbursed by the Corporation in North Kerala went down.

The levels of satisfaction of industrial units, who have invested on a large scale in their industrial unit, were high. The entrepreneurs who made profit were satisfied.

Those who had taken higher amount of loan from the Corporation were satisfied. Those entrepreneurs, who were of the view that the attitude of the officials of the Kerala Financial Corporation towards them is quite good, were also satisfied.

Those entrepreneurs, who were of the opinion that the rate of interest charged by the Kerala Financial Corporation on its loans is high, were not satisfied in the financial assistance of the Corporation. Those entrepreneurs who had to start repayment within one year after availing loans were found to be not satisfied and those who were allowed gestation period above one year were found to be quite satisfied in the financial assistance of the Corporation. The repayment of loans on monthly basis was quite welcomed by the borrowers of the Corporation.

6.22 Suggestions

Based on the analysis made so far, the following suggestions are made;

The major objective of Kerala Financial Corporation is to finance the requirements of small industrial / business units. However, the volume of financial assistance to the small units is found to be declining considerably. From the standpoint of Kerala State, the role of small and cottage industries can never be ignored. Therefore the Kerala Financial Corporation should give due recognition to the financial needs of small industrial / business units.

Among the three sectors of the economy, namely, primary, secondary and tertiary sectors, the tertiary sector is growing fast. The Kerala Financial Corporation is also directing its financial assistance more to the tertiary sector. However, as the industrial sector is the key sector of economic development, its financial needs should not be under-satisfied or ignored. Therefore it is suggested that more importance should be given to the industrial sector while framing the financing policies of the Corporation.

Among the three categories of industry, namely, the manufacturing, the gas, electricity and water supply and the construction, the share of financial assistance to the manufacturing sector has come down. As the manufacturing industry is of crucial importance in any economy, the Kerala Financial Corporation should take steps to finance more and more manufacturing units on easy terms, even by assuming the role of a promotional agency.

Among the three regions, the Northern region was found to be comparatively backward in the industrial development. As a developmental institution, the Kerala Financial Corporation shall frame special schemes, which will help the region to be at par with the other two regions.

Analysis shows that there is a gap between the amount of loans applied for and the amount of loan sanctioned. The Kerala Financial Corporation should consider the genuine loan requisitions more leniently, of course, without sacrificing security considerations, and sanction the entire amount of loan applied for.

Analysis reveals that only 25 percent of borrowers have availed working capital loans from the Kerala Financial Corporation. The remaining 75 percent depends on banks and other sources for raising working capital. The working capital scheme of the Corporation is not welcomed by the industrial sector because it is not in the nature of revolving credit or overdraft. Hence the Corporation should introduce working capital loans similar to that of commercial banks.

A major complaint from the part of the borrowers of the Kerala Financial Corporation was that the rate of interest on its loans is very high. Some of the units covered under the study are paying interest up to 19 percent. Therefore the Corporation should take steps to curtail the rate of interest on its loans.

Another complaint against the Kerala Financial Corporation is that the benefit of revised rate of interest is not available to the existing loans. This results in charging different interest rates on different loans. Therefore, it is suggested that the revised rates of interest on new loans should be made applicable also to the existing loans.

In most cases the business units will take up to three years to commence the commercial production, until which they may not be able to start repayment of the loan. It was pointed out that the gestation period allowed by the Kerala Financial Corporation in many cases was insufficient. Therefore the Corporation should consider giving adequate gestation period according to the merits of the case.

Promptness in repayment is an important indicator of success of a business unit. The Kerala Financial Corporation should take steps to motivate the units to be prompt in the repayment of loans by way of frequent contacts, field visits and inspections and similar other monitoring mechanisms.

The Corporation should act as a facilitator in the efforts of the entrepreneurs in getting clearances from various Government offices.

The Kerala Financial Corporation should maintain an expert cell for identifying viable projects and finance them. It should assume the role of an expert advisor apart from being a mere loaner.

The Corporation should assume a leading role in the prevention of industrial sickness by periodical inspection of the assisted units and designation of desk officers within the financial institution to monitor group of clients. It should also run specialised industry cells in the financial institutions to keep abreast of the developments in specific industries.

While guaranteeing the loans of the Kerala Financial Corporation for the borrower, the guarantor(s) is subject to personal guarantee also, apart from his liability on the property mortgaged. This personal liability discourages persons from acting as guarantors for the loans taken from the Corporation. So the liability of the guarantors should be limited to the property mortgaged.

In order to discourage fund diversion, the Kerala Financial Corporation should verify the genuineness of purpose of the loan applicant.

The Kerala Financial Corporation should have schemes for providing entrepreneurial development programmes and training programmes so that more and more educated youths are attracted towards the industrial sector.

The Kerala Financial Corporation should take initiatives in conducting knowledge enhancement programmes like trade fairs and exhibitions for its borrowers.

The Kerala Financial Corporation should attend to the early symptoms of industrial sickness and start revival efforts rather than wait for the units to die.

In short, the Kerala Financial Corporation should have a human face in its lending policies.

6.23 Conclusion

From the above analysis, findings and suggestions (in spite of the limitations), it can very well be inferred that the Kerala Financial Corporation is the major financial institution that can play a leading role in reviving the industrial sector of the State, especially the Northern region. By taking effective steps and by adopting entrepreneur-friendly policies and attractive programmes, it can continue to be the fore-runner in the industrial financing scenario of the State and it can always hope to remain a faithful friend to the entrepreneurs.

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Appendix- I

List of offices of the Kerala Financial Corporation

Head Office

Vellayambalam
Thiruvananthapuram
Tel. 0471-2318319

Branch Offices

Thiruvananthapuram

Vellayambalam
Thiruvananthapuram
Tel. 0471-2313143

Thodupuzha

Pulimoottil Shopping Arcade
Thodupuzha
Tel. 0486-2223170

Kollam

YMCA Building
YMCA Road
Kollam
Tel. 0474-2743604

Kottayam

Geetha Trade Centre
YWCA, M.C. Road
Kottayam
Tel. 0481-2563681

Alappuzha

Asan Smaraka Building
Near District Court
Alappuzha
Tel. 0477-2243207

Ernakulam

Kaloor Road
Ernakulam
Tel. 0484-2401884

Pathanamthitta

Pazhamannil
Jessy Towers
Pathanamthitta

Perumbavoor

1st Floor
SNDP shopping Complex
Perumbavoor
Tel. 0484-2592663

Idukki

Pulickal Building
Kattappana
Idukki
Tel. 0486-2872418

Thrissur

KMM Complex
Kokkala
Thrissur
Tel. 0487-2421912

Palakkad

1st Floor, Century Complex
Palakkad
Tel. 0491-2544641

Kozhikode

M-Square Complex
Pavamany Road
Kozhikode
Tel. 0495-2721940

Wayanad

Irident Arcade
Pinalgode road
Kalpetta
Tel. 0493-2602059

Malappuram

Uphill
Malappuram
Tel. 0483-2779440

Kannur

Hassan Arcade
Opp. RTO Office
Kannur
Tel. 0497-2702194

Kasargod

Anebagilu, Near Collectorate
M.G. Road
Kasargod
Tel. 0499-2430156

Appendix- II
Schemes of Kerala Financial Corporation in Operation

13.0.Schemes in Operation.

13.1. General:

Sl. No.	Name of Scheme	Eligibility	Maximum Loan Amount	Minimum Promoters Contribution	Loan Repayment period
a.	Small Scale Industries where Term Loan component is upto Rs.10 lakhs	New or Existing SSI Units having SSI Regn.	75% of the total Project Cost or 85% of the fixed assets whichever is less	25% of the total Project Cost	Upto 8 ½ years including moratorium upto 18 months
	Small Scale Industries where Term Loan component is over Rs.10 lakhs		2/3 of the total Project Cost or 85% of the fixed assets wherever is less	1/3 of the total Project Cost	Upto 10 years including moratorium upto 24 months.

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b.	Medium Scale Industries	New or existing units with paid up capital and free reserves not exceeding Rs.30 crores.	2/3 of the total Project Cost or 75% of the value of industrial assets, whichever is less.	1/3 of the total Project cost	Upto 10 years including moratorium upto 24 months.
c.	Single Window Scheme	New SSI units are eligible for term loan and working capital loan. Modernisation, technology, upgradation, rehabilitation of viable sick units are also eligible.	75% or 2/3 of the project cost as the case may be depending on loan component Maximum Working Capital limit is Rs.25 lakhs	25% or 1/3 of the Project cost as the case may be.	Upto 10 years for Term Loan and Working Capital. Loan Moratorium 24 months for Term Loan and 36 months for Working Capital Loan.
d.	National Equity Fund Assistance (NEF) (For project cost upto Rs.50 lakhs)	Equity support to new projects in SSI sector or for expansion/ Modernisation/ Technology upgradation/ Diversification/ Rehabilitation of viable sick units.	25% of Project Cost for NEF. limited to Rs.10 lakhs. 65% for term loan.	10% of the total p project cot. <u>Project funding</u> Promoter(s) 10% NEF 25% Term loan 65% Total 100%	For NEF repayment period is upto 7 years with 3 years moratorium.
e.	Information Technology and Software Development	For creation of fixed assets for new/existing units. For existing units, track record should be good. Preference to persons having expertise & experience in software development and marketing.	Rs.500 lakhs in corporate sector and 200 lakhs to other sectors. Loan amount restricted to 2/3 of project requirement.	1/3 rd of estimated requirement.	Upto 6 years with gestation period upto one year.

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f.	Scheme for qualified professionals	Professionals in Management, Medicine, Finance, Engg. & Architecture for setting up new ventures (project cost upto Rs.20 lakhs)	Maximum 75% of the project cost.	25% of project cost.	Upto 5 years including moratorium upto 1 year.
g.	Acquisition of existing assets of manufacturing or service sector	Existing viable units. The acquirer should have adequate exposure, experience and expertise in running similar enterprises or should have a good business track record.	50% of the assets being acquired.	50%	Maximum 6 years with 6 months moratorium.
h.	Acquisition of taken over units of K.F.C.	Units taken over and is in possession of the Corporation and for purpose of revival of the unit.	50% of the upset value taken at the time of sale or actual sale consideration whichever is less and for acquisition of assets required for revival.	50%	Maximum 5 years including Moratorium of 1 year.

13.2. SCHEMES FOR EXISTING WELL RUN INDUSTRIAL UNITS:

a.	Working Capital term loan for SSIs.	Units with good track record which are in existence for the last 4 years, making profits for the past 2 years.	Upto 75% of the working capital requirement, limited to Rs.25 lakhs.	Upto 25% of the working capital requirement.	Upto 6 years including moratorium upto 6 months.
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13.3. SCHEMES FOR THE SERVICE SECTOR:

a.	Transport Loan	For new vehicles only	Upto 80% of the cost of chassis and cost of body building.	20%	Upto 72 months including moratorium upto 6 months.
b.	Mobile catering (including regular catering and flight kitchen facilities) Project cost upto Rs.25 lakhs.	For cost of vehicle, equipments, utensils etc. Promoters should have experience in the field, Vehicle should have fitness certificate.	75% in projects costing upto Rs.10 lakhs. 2/3 rd in projects costing above Rs.10 lakhs.	25% upto Rs.10 lakhs 1/3 rd above Rs.10 lakhs.	Upto 66 months including moratorium upto 3 months.
c.	Shopping Complex and Commercial Complex.	For new units & expansion of existing units.	60% of total project cost.	40% of project cost.	Upto 10 years including moratorium upto 2 years.
d.	Mobile DG Set	New	Upto 75% of the cost of DG Set	25%	Maximum 5 years including upto 2 months moratorium.
e.	Warehouses, Godowns, Convention Centres, Kalyanamandapam Auditorium etc.	New construction and for expansion of existing ones.	Upto 2/3 of the project cost.	1/3 of the project cost.	Upto 10 years including moratorium upto 2 years.
f.	Infrastructure Projects – Assistance scheme.	For the development of IT Park, B.T. Park, Roads & Bridges, Parking facilities.	66.66% of the cost of project Rs.500 lakhs to corporate sector and Rs.200 lakhs to others.	33.33%	Maximum 10 years.

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g.	Marketing of SSI Products	For construction / setting up of show rooms, warehouses. storage houses and godowns parking facility distribution / delivery vans for marketing products, working capital for stocking goods.	66.66% of the cost of project. Rs.500 lakhs to corporate sector and Rs.200 lakhs to others.	33.33%	Maximum 8 years.
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13.4. SCHEMES FOR TOURISM SECTOR:

a.	Tourist home, Restaurant, Convention centres, Tourism related activities, Amusement Parks, Service activities related to tourism.	For new units & expansion of existing units.	Upto 2/3 of total project cost. Minimum margin security prescribed is 25% on asset value.	1/3 of the total project cost.	(a) Upto 10 Years with moratorium upto 2 years. (b) In case of Loans above Rs.100 lakhs where implementation period is longer maximum loan period of 12 years with moratorium of maximum 3 years.
b.	Tourism Related Activity (Project requirements upto Rs.25 lakhs) - For Working Capital, accommodation and travel of tourists).	Experience in tourism related activities for last four years, arranging travel plans and contracts with tour operators. Rising trends of turn over, operating profit and net profit during last two years.	75% in projects costing upto Rs.10 lakhs. 2/3 in projects costing above Rs.10 lakhs.	25% in projects costing upto Rs.10 lakhs. 1/3 in project costing above Rs.10 lakhs.	Upto 61 months with moratorium upto 3 months.

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c.	Tourist Resorts/ Hotels - Modernisation & upgradation.	Existing well run profit making Hotels /Resorts.	90% of estimated requirement for development purpose subject to a maximum of 50% of the value of existing assets.	10%	Maximum 8 years with moratorium upto 12 months.
d.	Acquisition of Existing Hotel / Tourist Resorts.	Eligible only for well run Hotels / Resorts. The acquirer should convince the Corporation of the unit's viability. The acquirer should have adequate exposure, experience and expertise in running similar enterprise or should have a good business track record.	66.66% of the assets being acquired.	33.34%	Maximum 6 years with moratorium upto 6 months.

13.5. SCHEMES FOR THE HOSPITAL SECTOR:

a.	Hospital/Nursing Homes	For new units & expansion of existing units.	Upto 2/3 of total project cost. Minimum margin on security prescribed is 25% of asset value.	1/3 of the total project cost.	(a) Upto 10 years with moratorium upto 2 years. (b) In case of Loans above Rs.100 lakhs where implementation period is longer maximum loan period of 12 years with moratorium of maximum 3 years.
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b.	Veterinary Clinics (Project cost upto Rs.25 lakhs)	For creation of fixed assets for new and existing units. Promoter should be a graduate in Veterinary Science	75% in projects costing upto Rs. 10 lakhs. 2/3 rd in projects costing above Rs. 10 lakhs.	25% upto Rs.10 lakhs. 1/3 rd above Rs.10 lakhs.	Upto 8 1/2 years with moratorium upto 1 1/2 years.
c.	Pharmacies (Project cost upto Rs.25 lacs).	For creation of fixed assets for new units and existing units. Promoter should have prescribed qualification in pharmacy.	75% in projects costing upto Rs.10 lakhs. 2/3 rd in projects costing above Rs. 10 lakhs.	25% upto Rs.10 lakhs. 1/3 rd above Rs.10 lakhs.	Upto 8 1/2 years with moratorium upto 1 1/2 years.
d.	Hospitals/Clinics/ Diagnostic Centres/ Health Clinics/ Modernisation/ Upgradation.	Only for developmental activities and for acquisition of quality equipments to modernise and upgrade the existing well run profit making hospitals.	90% of the estimated requirement for upgradation subject to a maximum of 50% of the value of existing assets.	10%	Maximum 8 years.

13.6. SCHEMES FOR MODERNISATION OF SSIs:

a.	Textile and Jute Industries under Technology Upgradation Fund (RTUF) Scheme.	Energy saving devices, R&D, Technical Know how etc. Modernisation or expansion with state-of-the-art technology.	Upto Rs.100 lakhs. Maximum 80% of the Project Cost.	Minimum 20% of the Project Cost.	7 to 10 years with moratorium upto 2 years.
b.	Credit linked capital subsidy scheme for Technology upgradation of SSIs.	Capital subsidy of 12% would be admissible on loans advanced to SSI and tiny units for Technology Upgradation in certain select products / sub sectors.	75% of the upgradation cost.	25%	5 years.

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13.7. SHORT TERM LOAN SCHEMES:

a.	Short Term Loans	Units in existence for last 4 years, making profits at least during the last 2 consecutive years, showing trends of rising turn over and net profits, Growth in net worth, shows a repaying capacity to pay back the loan in the stipulated repayment period.	Rs.100 lakhs.	33 1/3%	24 to 36 months including moratorium of 2 months.
b.	Civil Contractors	Only for approved A&B class civil contractors for meeting working capital needs for carrying out civil works awarded by Central / State / Govt. owned undertakings.	2/3 of the contract amount Rs.500 lakhs for corporate sector and Rs.200 lakhs for others.	1/3 of the contract amount.	4 years including moratorium upto 1 year depending upon terms of contract/ requirement of project .
c.	TV Serial Production	Persons / units engaged in the TV serial / film production field. Should have released some sponsored serials / films which got popularity in the media. Telecasting Agency's approval for script should be obtained.	50% of the estimated production cost subject to a maximum of Rs.50 lakhs.	50%	One year with a gestation period of 3 months.

14.0. Additional Loan:

14.1. Advances to existing customers will be considered on merits and shall be need based.

APPENDIX- III

INTERVIEW SCHEDULE FOR INDUSTRIAL UNITS

1. Unit Profile

1.1. The type of business / industrial organization

- | | | | |
|------------------------|--------------------------|---------------------|--------------------------|
| 1. Sole Proprietorship | <input type="checkbox"/> | 2. Partnership firm | <input type="checkbox"/> |
| 3. Company | <input type="checkbox"/> | 4. Others | <input type="checkbox"/> |

1.2 Nature of the Organisation

- | | | | |
|-----------------------------|--------------------------|---------------------------|--------------------------|
| 1. Food and Beverages | <input type="checkbox"/> | 2. Hotels and Restaurants | <input type="checkbox"/> |
| 3. Textiles and Ready-mades | <input type="checkbox"/> | 4. Plastic-Based | <input type="checkbox"/> |
| 5. Wood-Based | <input type="checkbox"/> | 6. Paper and Printing | <input type="checkbox"/> |
| 7. Rubber-Based | <input type="checkbox"/> | 8. Transport Services | <input type="checkbox"/> |
| 9. Engineering-Based | <input type="checkbox"/> | 10. Others | <input type="checkbox"/> |

1.3. Number of employees employed

- | | |
|-------------|-------|
| 1. Direct | ..... |
| 2. Indirect | ..... |

1.4. The purpose for which loan is taken from KFC

- | | | | |
|---------------------------------------|--------------------------|-----------------------------------|--------------------------|
| 1. Newly established unit | <input type="checkbox"/> | 2. Expansion of the existing unit | <input type="checkbox"/> |
| 3. Modernisation of the existing unit | <input type="checkbox"/> | | |

1.5. Amount invested in the unit

- | | |
|---------------------------|-------|
| 1. Land and building | ..... |
| 2. Plant and machinery | ..... |
| 3. Furniture and fittings | ..... |
| 4. Working capital | ..... |

1.6. Problems faced by the unit

- | | | | |
|--|--------------------------|------------------------------|--------------------------|
| 1. Lack of demand | <input type="checkbox"/> | 2. Shortage of raw materials | <input type="checkbox"/> |
| 3. Lack of power | <input type="checkbox"/> | 4. Lack of skilled workers | <input type="checkbox"/> |
| 5. Difficulties in procuring trade license | <input type="checkbox"/> | | |

2. Profile of the Entrepreneur.

2.1. Age

- | | | | |
|----------------------|--------------------------|----------------------|--------------------------|
| 1. Up to 20 Years | <input type="checkbox"/> | 2. Between 21 and 40 | <input type="checkbox"/> |
| 3. Between 41 and 60 | <input type="checkbox"/> | 4. Above 60 years | <input type="checkbox"/> |

2.2. Educational qualification

- | | | | |
|---------------------|--------------------------|-----------|--------------------------|
| 1. Below SSLC | <input type="checkbox"/> | 2. SSLC | <input type="checkbox"/> |
| 3. Graduate & above | <input type="checkbox"/> | 4. Others | <input type="checkbox"/> |

2.3. Previous business experience

- | | | | |
|------------------------|--------------------------|----------------------|--------------------------|
| 1. No prior experience | <input type="checkbox"/> | 2. Less than 3 years | <input type="checkbox"/> |
| 3. 3 to 6 years | <input type="checkbox"/> | 4. 7 to 10 years | <input type="checkbox"/> |
| 5. Above 10 years | <input type="checkbox"/> | | |

2.4. Have you undergone training before becoming an entrepreneur?

- | | | | |
|--------|--------------------------|-------|--------------------------|
| 1. Yes | <input type="checkbox"/> | 2. No | <input type="checkbox"/> |
|--------|--------------------------|-------|--------------------------|

2.5. If 'yes' what was the nature of training received?

- | | | | |
|---------------------------------|--------------------------|------------------------|--------------------------|
| 1. Entrepreneurship development | <input type="checkbox"/> | 2. On-the-job training | <input type="checkbox"/> |
| 3. Sale promotion training | <input type="checkbox"/> | 4. Others | <input type="checkbox"/> |

3. Financial Aspects

3.1. Please specify the sources of capital in your unit

- | | | | |
|--------------|--------------------------|------------------|--------------------------|
| 1. Own funds | <input type="checkbox"/> | 2. KFC financing | <input type="checkbox"/> |
| 3. Banks | <input type="checkbox"/> | 4. Others | <input type="checkbox"/> |

3.2. What is the loan taken from KFC

3.3. The amount of loan applied for from KFC

3.4. The amount of loan sanctioned by KFC

3.5. The purpose for which loan is taken

- | | | | |
|-----------------|--------------------------|--------------------|--------------------------|
| 1. Fixed assets | <input type="checkbox"/> | 2. Working capital | <input type="checkbox"/> |
| 3. Both | <input type="checkbox"/> | | |

3.6. Share of different sources of capital in the total investment

- | | |
|---------------------|-------|
| 1. Own contribution | ..... |
| 2. KFC | ..... |
| 3. Banks | ..... |
| 4. Other sources | ..... |
| Total | ..... |

3.7. Share of different sources of working capital

- | | |
|---------------------|-------|
| 1. Own contribution | ..... |
| 2. KFC | ..... |
| 3. Banks | ..... |
| 4. Other sources | ..... |
| Total | ..... |

- 3.8. Are you satisfied in the financial assistance of K F C
 - 1. Very much satisfied
 - 2. Satisfied
 - 3. Neutral
 - 4. Dissatisfied
 - 5. Very much dissatisfied
- 3.9. The time taken by KFC in sanctioning loan after the submission of application
 - 1. Less than one month
 - 2. One to three months
 - 3. Four to six months
 - 4. Above six months
- 3.10. The time taken by KFC in disbursing the loan after sanctioning
 - 1. Less than two weeks
 - 2. Two to four weeks
 - 3. Above four weeks
- 3.11. Are you satisfied in the co-operative attitude of KFC officials?
 - 1. Quite satisfied
 - 2. Some what satisfied
 - 3. Not satisfied
- 3.12. What is the rate of interest on your loan?
- 3.13. What is your opinion about the rate of interest charged by KFC?
 - 1. High
 - 2. Reasonable
 - 3. Low
- 3.14. In how many installments the loan was released to you?
 - 1. One
 - 2. Two
 - 3. Three
 - 4. Four and above
- 3.15. What is the gestation period in the repayment of loan?
 - 1. Below one year
 - 2. One year and above
- 3.16. What is the repayment schedule of the loan?
 - 1. Monthly
 - 2. Quarterly
 - 3. Half yearly
- 3.17. Are you prompt in the repayment of the loan?
 - 1. Yes
 - 2. No
- 3.18. Was the loan sufficient for the purpose of business?
 - 1. Sufficient
 - 2. Not sufficient
- 3.19. Does your unit run at a profit?
 - 1. Yes
 - 2. No
- 4. General Aspects**
- 4.1. What extent of installed capacity is utilized by your unit?
 - 1. Up to 25 percent
 - 2. 26 to 50 percent
 - 3. 51 to 75 percent
 - 4. Above 75 percent

4.2. Please explain whether you suffer any problems other than those mentioned earlier.

- 1
2
3

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