

# ROLE OF SFC'S IN BALANCED REGIONAL DEVELOPMENT-WITH SPECIAL REFERENCE TO KARATAKA STATE FINANCIAL CORPORATION

\* Prof. H. Y.KAMBLE

\*\* UMA B. PUJAR

## INTRODUCTION

State Financial Corporations act as promotion agencies and play a very important role in stimulating and accelerating industrial growth in the backward areas of states. The main objective of the SFCs is to promote and develop tiny, small, ancillary and medium scale industries. They also try to overcome regional imbalance.

The SSIs constitute a very important segment of the Indian economy as they help in dispersal of industries, rural development and decentralization of economic power by generating employment in the country. In India, Small and Medium Enterprises play a vital role in the growth of the economy. According to Dr. Vasant Desai (2006) Small scale industries contribute as much as 45 per cent of industrial production, 65 per cent of employment generation and 35 per cent of the India's exports. The SME sector is the second largest employment generating sector, after agriculture. It provides employment to more than 28.28 million people.

### Importance of Small Scale Industries :

In the country like India which has abundant labour and scarcity of capital, SSIs play very significant role in the industrialisation of the economy. Major advantages of SSIs are -

1. Khadi, cottage and certain other village industries provide vast scope for employment of special categories of people like women, children, old aged, physically handicapped etc. It also provides employment for these who are employed elsewhere either full time or part time.
2. India is characterized by abundant labour supply and problem of unemployment and underemployment and rapidly rising labour force. The khadi, village and small industries assume special significance because of their high employment potential.
3. Agriculture provides only seasonal employment whereas, Khadi, cottage and some other village industries provide employment opportunities during the off-season too and help many households to mitigate their problems during off-seasons.
4. Khadi and village industries in particular and the SSI units in general maximize employment and output for a given amount of capital. This is of particular importance to a labour abundant and capital scarce economy i.e. the capital output and capital labour ratios are comparatively very low.
5. These industries have been found to be of particular help to the weaker sections of the society. The participation of the scheduled castes, scheduled tribes, women and other weaker sections of the society in this sector is significant.
6. The small industries have acquired more attention in recent years due to the very less ecological problems they create, compared to the large industries.
7. The village and small scale industries account for about one third of total export earnings. It shows how important they are to the Indian economy constrained by shortage of foreign exchange.
8. SSI is suitable to the democratic tradition of the country. There is a danger to democracy if the whole of the industrial structure is controlled by a few persons, because monopolists are anti-social and anti-

\* Dean and Professor, faculty of Commerce, Kittur Rani Channamma University, Belgavi

\* Asst. Professor, Dept. of Commerce, Govt First Grade College, Dharwad.

democratic in their outlook. The monopolists are in a position to exploit the consumers by manipulating price-output policies by their individual actions. They are also strong enough to influence the Government to weaken the democratic setup of the country. To avoid this State is to encourage decentralized industrial sector having cottage and Small Scale industries.

### **Role of Development Banks :**

Development banks are unique financial institutions doing the special task of fostering the development of nation. These banks are financial agencies to provide medium and long term financial assistance and act as catalyst agents in promoting balanced development of the industry, agriculture, and other key sectors.

The need for development of financial institutions was felt very strongly immediately after India attained independence. The country needed a strong capital goods sector to support and accelerate the pace of industrialization. The existing industries required long term funds for their reconstruction, modernization, expansion and diversification programs while the new industries required enormous investment for setting up gigantic projects in the capital goods sector. The first step towards building up a structure of development financial institutions was taken in 1948 by establishing the Industrial Finance Corporation of India (IFCI). This institution was set up by an Act of parliament with a view to promote corporate sector and industrial concerns. In view of the immensity of the task and vast size of the country, it was not possible for a single institution to cater to the financial needs of small scale industries spread in different states. Hence, the necessity for setting up regional development banks to cater to the needs of small and medium enterprises was recognized. Accordingly the State Financial Corporation Act was passed in 1951 for setting up State Financial Corporation's (SFCs) in different states. By 1955-56, 12 SFCs were setup and by 1967-68 18 SFCs were set up. The establishment of financial institutions at the State level was undertaken in 1949 by setting up Tamil Nadu Industrial Investment Corporation. The Government of India enacted the State Financial Corporations Act in 1951. The State Financial Corporations Act has empowered state Governments to establish State Financial Corporations in their respective states. Now there are 18 State Financial Corporations in India.

State Financial Corporation's (SFCs) act as promotion agencies and play a very important role in stimulating and accelerating industrial growth in the states. The main objective of the SFCs is to promote and develop tiny, small, ancillary and medium scale industries. It also tries to achieve balance in regional growth, in other words to widen the ownership base, to generate employment opportunities and to eliminate regional disparities.

### **Role of Karnataka State Financial Corporation :**

The KSFC commenced its operations during 1959 and played a pioneer role in the development of tiny and small scale industries in the state of Karnataka. It played developmental role not only in setting up industries but also in developing new entrepreneurs.

The KSFC is one of the proud institutions in India to provide financial assistance to small and medium scale industries in Karnataka. Since establishment of KSFC, the industrial picture in Karnataka has changed in the promotion of industries. It has contributed most significantly for the growth of small scale industries, backward area development and promotion of first generation enterprises. It is also the proud privilege of KSFC to have assisted many industries that are internationally recognized like the INFOSYS and BIOCON and it has maintained the top ranking among SFCs in the country.

### **Need for the study :**

Finance is the life blood of an economy. No sector of the economy can develop without the availability of adequate and timely finance. Industrial development of any country, therefore, depends on the organization

and working of financial institutions.

Development Finance Institutions are established both at Central and at the State levels in India. These institutions are different from the commercial banks and other financial institutions, in the sense, that their job is not only to make credit available to small scale industries but also to ensure balanced regional development and to undertake development activities.

The present study proposes to analyse the financial assistance made to SSI units by the KSFC. Karnataka State Financial Corporation was established to provide long term loan to small scale sector. More than 50 years have lapsed since the establishment of the KSFC. Whether the KSFC has lived up to its expectations or not is not known. Hence researcher felt the need to study the flow of finance by the KSFC to small scale industries in Karnataka.

#### **Objectives :**

1. To analyse the sanctions made by KSFC to small scale units.
2. To analyse the disbursement made by KSFC to small scale units.
3. To analyse region-wise sanctions and disbursement made by KSFC to small scale units.
4. To analyse the sanctions made by the KSFC to Backward / Non-backward districts.
5. To make suggestions in the light of the findings of the study.

#### **METHODOLOGY :**

This study is based on secondary data. The secondary data has been collected from the operational statistics and annual reports of the Karnataka State Financial Corporation.

#### **TOOLS AND TECHNIQUES OF ANALYSIS :**

In the analysis and interpretation of data collected from secondary sources statistical tools like percentages, averages, growth rates etc. have been used.

#### **PERIOD OF THE STUDY :**

The study covers a period of 10 years, commencing from the financial year 1999-2000 to 2009-10.

#### **REVIEW OF LITERATURE :**

##### **R.S.Rangarajan (1980)**

"Role of State Financial Corporations in Financing Industries: A Case Study of TIIC, KSFC and Kerala SFC" has examined the role played by the TIIC, KSFC and Kerala SFC in the financing of small scale industries, financing of backward districts. And also he analysed the profitability of three corporations. The secondary data used in the study related to sanctions, disbursements and sanctions to backward districts. The data is obtained from annual reports of the respective SFCs'. The study concludes that while the corporations have grown in their operations, the level of performance varies among them

##### **Ahmed Umar Khan (1981)**

"Small Units and Role of State Financial Corporations" highlighted the promotion of the growth of small scale industries, and removal of regional disparities in industrial development. The study concludes that SFC's are playing an important role in institutional financing of industries in case of small scale industries and industrial development of backward regions.

##### **Jayant Sathaye and Ashok Gadgil (1999)**

"Role of Development Banks in Promoting Industrial Energy Efficiency India Case Studies", evaluated the potential role for IDBI in lending for energy efficiency and environmental pollution control activities. The

evaluation of ten industrial sectors revealed an investment potential, with a payable period less than four years that exceeded one billion. The IDBI evaluation identified many areas where the establishment of an energy and environmental centre within IDBI would accelerate the achievement of this potential.

The technical assistance focused on IDBI's institutional capability, the procedures it follows for lending in this area, studies of ten energy-intensive sectors, and training and data needs to improve its lending. The findings of the study reveal a need to (a) use energy efficiency and environmental management (EEEM) indicators during IDBI's appraisal, approval and monitoring of projects, (b) increase the information resource base in house and out house experts, hand books, computerized data bases, and (c) increase awareness of (EEEM) components among industrial borrowers. The sector studies show that there is at least a 20 per cent lag compared to best practice for energy use and that a significant potential \$1.00 billion exist for investment in (EEEM) activities. Finally, the study concludes that, strengthening the existing institutional structure can be accomplished through the creation and establishment of a 'resource centre' will provide the necessary technical back up for IDBI officers at all levels.

### Annappurna Dixit (2009)

"Role of Financial Institutions in India's Industrial Development-Special Reference to Small Scale Industries", has made an attempt to analyse the role of financial institutions in promoting and rendering financial assistance to small scale sector, and these institutions have launched several schemes to provide them marketing assistance, technology up gradations, export promotion support, etc besides giving them financial assistance. Further, the study has attempted to review the governments' policies towards the SSI sector. The study evaluated the performance of financial institutions in the development of small scale industries. And the qualitative aspects of industrial sickness in SSI sector, the role of financial institutions, and other agencies in the rehabilitation of sick SSI units. The study is mainly based on the secondary data published in annual reports. The period of study is 1990-91 to 2000-01.

Finally, the study concludes that there has been much difference in the amount sanctioned and disbursed by these financial institutions nearly 70 percent of the sanctioned amount was disbursed. Thus, the need is to reduce this gap. Further, suggested that SIDBI and SFCs branch offices might be further extended in the country especially in areas having contribution of SSI units.

**Table-1**  
**Sanctions of Loans to SSI units**

Sl. No.	Year	South Karnataka	% to the total	North Karnataka	% to the total	State total
1	1999-00	11343.14	72.49	4305.15	27.51	15648.29
2	2000-01	13187.49	79.83	3332.42	20.17	16519.91
3	2001-02	11555.39	77.11	3430.14	22.89	14985.53
4	2002-03	11867.69	74.18	4131.11	25.82	15998.80
5	2003-04	10771.93	74.86	3617.12	25.14	14389.05
6	2004-05	8664.9	68.54	3976.83	31.46	12641.73
7	2005-06	10765.98	68.55	4938.73	31.45	15704.71
8	2006-07	11298.01	64.94	6099.84	35.06	17397.85
9	2007-08	10424.4	64.07	5846.27	35.93	16270.67
10	2008-09	16763.52	65.53	8819.61	34.47	25583.13
11	2009-10	18033.53	66.1	9247.02	33.90	27280.55

Source : Operational statistics of the KSFC

Table 1 depicts sanctions of loans to SSI units to North and South zones of Karnataka by the KSFC from 1999-2000 to 2009-10. As far as sanctions to SSI units are concerned the share of South zone was the highest at 79.83 per cent in the year 2000-01 and the lowest share of 64.07 per cent in the year 2007-08. The North zone had larger share in the year 2006-07 with 35.06 per cent and the lowest share in the year 2000-01 with 20.17 per cent. Here also larger share of sanctions to SSI units go to South Karnataka which again indicates a lot of regional imbalance

**Table-2**  
**Disbursement of Loans to SSI units**

Sl. No.	Year	South Karnataka	% to the total	North Karnataka	% to the total	State total
1	1999-00	11237.24	74.11	3924.87	25.89	15162.11
2	2000-01	10536.93	76.02	3322.93	23.98	13859.86
3	2001-02	10380.09	78.36	2866.66	21.64	13246.75
4	2002-03	9843.18	76.01	3106.73	23.99	12949.91
5	2003-04	9386.63	72.83	3501.55	27.17	12888.18
6	2004-05	8938.82	70.1	3813.18	29.9	12752.00
7	2005-06	8234.39	64.3	4571.84	35.7	12806.23
8	2006-07	9533.89	65.11	5109.9	34.89	14643.79
9	2007-08	10758.69	64.92	5814.15	35.08	16572.84
10	2008-09	11648.63	65.41	6161.05	34.59	17809.68
11	2009-10	13876.01	63.19	8084.09	36.81	21960.1

**Source : Operational statistics of the KSFC**

Table 2 depicts disbursement of loans to SSI in north and south zones of Karnataka State by the KSFC from 1999-2000 to 2009-10.

The percentage disbursement of loans to SSI units in South Karnataka ranges from maximum of 78.36 per cent in the year 2001-02 to a minimum of 63.19 percent in the year 2009-10. The percentage disbursement of loans to SSI units in North Karnataka ranges from maximum of 36.81 per cent in the year 2009-10 to minimum of 21.64 per cent in the year 2001-02.

The share of north Karnataka in the disbursement of the loans is less as compared to South Karnataka throughout the study period.

**Table-3**  
**Region-wise sanction of loans**

Year	Bombay Karnataka		Hyderabad Karnataka		Old Mysore Karnataka		Karnataka State	
	Unit	Amount	Unit	Amount	Unit	Amount	Unit	Amount
1999-2000	275	1871.29	225	2433.86	1073	11343.14	1573	15648.29
a	17.48	11.96	14.3	15.55	68.21	72.49	100	100
b		8.9		6.59		8.42		8.13
2000-01	222	1621.32	155	1711.1	1036	13187.49	1413	16519.91
a	15.71	9.81	11	10.36	73.32	79.83	100	100
b		7.79		4.63		9.79		8.59
2001-02	101	1108.04	125	2322.1	645	11555.39	871	14985.53
a	11.6	7.39	0	15.5	74.05	77.11	85.65	100
b		5.32		6.28		8.58		7.79
2002-03	103	1252.56	132	2878.55	548	11867.69	783	15998.8
a	13.15	7.83	16.9	17.99	69.99	74.18	100	100
b		6.02		7.79		8.81		8.31
2003-04	107	1571.15	125	2045.97	525	10771.93	757	14389.65
a	14.13	10.92	16.5	14.22	69.35	74.86	100	100
b		7.54		5.54		8		7.48
2004-05	98	1724.02	142	2252.81	507	8664.9	747	12641.73
a	13.12	13.64	19	17.82	67.87	68.54	100	100
b		8.28		6.1		6.43		6.57
2005-06	96	1838.85	130	3099.88	503	10765.98	729	15704.71
a	13.17	11.71	17.8	19.74	69	68.55	100	100
b		8.83		8.39		7.99		8.16
2006-07	126	1849.38	170	4250.46	558	11298.01	854	17397.85
a	14.75	10.63	19.9	24.43	65.34	64.94	100	100
b		8.88		11.5		8.39		9.04
2007-08	133	2353.77	148	3492.5	478	10424.4	759	16270.67
a	17.52	14.47	19.5	21.47	62.98	64.06	100	100
b		13.08		9.45		7.74		8.46
2008-09	143	2788.61	149	6031	604	16763.52	896	25583.13
a	15.96	10.9	16.6	23.57	67.41	65.53	100	100
b		13.39		16.32		12.45		13.3
2009-10	138	2810.75	168	6436.27	554	18033.53	860	27280.55
a	16.05	10.23	19.5	23.59	64.42	66.18	100	100
b		13.5		17.42		13.39		14.18
TOTAL	1542	20823.74	1669	36954.5	7031	134676	10242	192420.9
a	14.96	10.91	16	18.48	69.04	70.61	100	100

Source : Operational statistics of the KSFC.

a) Percentage to the Total. b) Quotient.

Table 3 depicts the region-wise number of SSI units and amount

of loan sanctioned to SSI units from 1999-2000 to 2009-10 by the KSFC. The share of old Mysore region in the total number of units for whom the loan is sanctioned is higher than the other two regions of the state, throughout the study period. Similarly the share of Mysore region in the total amount of loan sanctioned is also higher as compared to Bombay Karnataka and Hyderabad Karnataka. Between Bombay Karnataka and Hyderabad Karnataka, the share of Bombay Karnataka is higher as compared to Hyderabad Karnataka both in the amount of loan sanctioned and total number of units to whom loan is sanctioned.

**Table-4**  
**Region wise Number of Units and Amount Sanctioned and Share of SSI Units**

Year	Bombay Karnataka		Hyderabad Karnataka		Old Mysore Karnataka		Karnataka State	
	Unit	Amount	Unit	Amount	Unit	Amount	Unit	Amount
1999-00	461	3843.26	461	4138.82	1856	22627.55	2778	30609.63
a		12.56		13.52		73.92		100
b	59.65	48.69	48.81	58.81	57.81	50.13	56.62	51.12
2000-01	355	2533.31	361	3281.88	1860	35087.31	2576	40902.5
a		6.19		8.02		85.78		100
b	62.53	64	42.94	52.14	55.7	37.58	54.85	40.39
2001-02	178	2013.53	231	3388.15	1149	23517.88	1558	28919.56
a		6.96		11.72		81.32		100
b	56.74	55.03	54.11	68.54	56.14	49.13	55.91	51.82
2002-03	197	2943.51	193	3707.85	907	25823.42	1297	32474.78
a		9.06		11.42		79.52		100
b	52.28	42.55	68.39	77.63	60.42	45.96	60.37	49.27
2003-04	186	3156.3	226	3742.88	863	21778.08	1275	28677.26
a		11.01		13.05		75.94		100
b	57.53	49.78	55.31	54.66	60.83	49.46	59.37	50.18
2004-05	167	4136.99	218	3019.37	805	15923.25	1190	23079.61
a		17.93		13.08		68.99		100
b	58.68	41.67	65.14	74.61	62.98	54.42	62.77	54.77
2005-06	161	3373.27	181	4665.16	731	22020.97	1073	30059.4
a		11.22		15.52		73.26		100
b	59.63	54.51	71.82	66.45	68.81	48.89	67.94	52.25
2006-07	196	4073.87	229	5352.71	858	32136.09	1283	41562.67
a		9.8		12.88		77.32		100
b	64.29	43.4	74.24	79.41	65.03	35.16	66.56	41.86
2007-08	195	3944.67	187	4079.55	763	27323.55	1145	35347.77
a		11.16		11.54		77.3		100
b	68.21	59.67	79.14	85.61	62.65	38.15	66.29	46.03
2008-09	223	6632.23	184	7633.2	972	40446.66	1379	54712.09
a		12.12		13.95		73.93		100
b	64.13	42.05	80.98	78.77	62.14	41.45	65.45	46.76
2009-10	280	6787.98	205	7745.77	919	43773.17	1404	58306.92
a		11.64		13.28		75.07		100
b	49.29	41.41	81.95	83.09	60.28	41.2	61.25	46.79
Total	2319	36650.9	2471	43009.57	10764	266684.8	15554	346345.3
a		10.58		12.42		77		100
b	66.49	56.82	67.54	85.92	65.32	50.5	65.85	55.56

Source : Operational statistics of the KSFC.

a) Percentage to the total. b) Percentage share of SSI units.

Table 4 depicts the region-wise total number of units and total sanctions made by KSFC from 1999-2000 to 2009-10 and percentage share of SSI units in it.

The number of units which availed assistance from KSFC ranged from 1073 units in the year 2005-06 and 2778 units in the year 1999-2000. In the old Mysore area the number of units who availed the assistance ranged from 731 units to 1860 units. So the old Mysore area bagged a larger share than Bombay Karnataka till 2006-07 with 229 units and in the year 2007-08 and 2008-09 it's share is less than Bombay Karnataka.

The share of number of SSI units in the state is more than 50 per cent than non SSI units, whereas the total amount sanctioned to SSI units fluctuates between 40.39 per cent and 54.77 per cent. Number of units which availed assistance in Bombay Karnataka, Hyderabad Karnataka and Old Mysore Karnataka are more or less in the same range. And in all the regions the share of SSI units is more than 50 per cent. But comparatively in Hyderabad Karnataka region the share of SSI units is higher than Bombay Karnataka region from 2006-07 onwards. Even the amount of loan sanctioned to all the three regions has similar trend as in the number of units who availed assistance from the KSFC.

**Table 5.24**  
**Sanction to backward and Non-backward Districts**

Sl. No.	Year	Total Sanctions	Sanctions to Backward Districts	Sanctions to Non-backward Districts
1	1999-00	438990.44	192168.69 (43.78)	246821.75 (56.22)
2	2000-01	475366.63	202098.24 (42.51)	273268.39 (57.49)
3	2001-02	382612.83	94500.37 (24.70)	288112.46 (75.30)
4	2002-03	524527.65	217972.03 (41.56)	306555.62 (58.44)
5	2003-04	547674.67	226705.43 (41.39)	320969.24 (58.61)
6	2004-05	565238.84	235081.96 (41.59)	330156.88 (58.41)
7	2005-06	590554.66	243961.67 (41.31)	346592.99 (58.69)
8	2006-07	627122.13	255906.95 (40.81)	371215.18 (59.19)
9	2007-08	657482.36	268557.88 (40.85)	388924.48 (59.15)
10	2008-09	705440.41	287501.15 (40.75)	417939.26 (59.25)
11	2009-10	753872.27	309430.50 (41.05)	444441.77 (58.95)

Source : Operational Statistics of the KSFC.

The Government of Karnataka, has classified the districts into backward districts and non-backward districts to attract entrepreneurs and capital through strategic intervention, fiscal incentives and concessional finance in these districts. In view of this KSFC has a special responsibility of directing funds to areas which are less developed.

Table 5 depicts the total sanctions made by the SKFC to backward and non-backward districts of the state. From the table it is clear that the share of backward districts in the sanctions made by KSFC is consistently less than the non-backward district through out the period of study.

**FINDINGS :**

1. The sanctions to SSI units in South Karnataka is more compared to SSI units located in north Karnataka.
2. The disbursement of loans to SSI units in South Karnataka is more than the disbursement of loans to SSI units in North Karnataka.
3. Region-wise analysis of number of SSI units and amount sanctioned to SSI units from 1999-2000 to 2009-10 by the KSFC reveals that the share of old Mysore region in the total number of units for whom the loan is sanctioned is higher than the other two regions of the state, throughout the study period. Similarly the share of Mysore region in the total amount of loan sanctioned is also higher as compared to Bombay Karnataka and Hyderabad Karnataka. Between Bombay Karnataka and Hyderabad Karnataka, the share of Bombay Karnataka is higher as compared to Hyderabad Karnataka both in the amount of loan sanctioned and total number of units to whom loan is sanctioned.

**Suggestions and Recommendations :**

In the light of the above findings following suggestions and recommendations are made

- 1) It is seen that there is lot of regional imbalance in the sanctions and disbursement of loans in the state. South Karnataka is given more importance in the development of industries rather than to the North Karnataka. The share of North Karnataka in the sanctions and the disbursement made by the KSFC is less as compared to share of South Karnataka. This show that there is regional imbalance in the assistance sanctioned and disbursed made by KSFC. It is suggested that the KSFC should concentrate equally on the whole state and try to eliminate regional disparities.
- 2) Karnataka state has been divided into three regions viz., Mysore region, Bombay region and Hyderabad Region. Hyderabad region is industrially least developed, Bombay Karnataka region is moderately developed and Mysore region is more developed. The Bombay Karnataka and Hyderabad Karnataka are totally neglected by the KSFC. The developed Old Mysore Karnataka has been provided more sanctions to more number of units. It is clear that KSFC has not strived for the industrial growth of least and moderately developed regions of the state. It is once again suggested that the KSFC should divert the major portion of its resources to the less developed regions.
- 3) The share of backward districts in the total sanctions is less as compared to non-backward districts. In view of this, it is suggested that the KSFC takes a re-look at the incentives and other fiscal incentives offered the units located in backward districts of the state.

**References :**

Jagdish Narayan and Ankita Gupta. 2004. Functions and Changing Role of Development Financial Institutions in India – A Critical Review, *The Indian Economic Journal* 51 (3-4): 40-54.

Kamble, Harsh Kumar. 1997. Role of the KSFC in the Industrial Development, *The Indian Journal of Commerce* 192 : 104-110.

Nashi, G. K. 2004. *Performance Evaluation of State Financial Corporations in India – A Case Study of Karnataka State Financial Corporation*, Ph.D. Dissertation. Dharwad: Karnatak University, Dharwad.

Uppal, J.S. 1984. *Public Financial Institutions in India*. New Delhi: S.G.Wasani for Macmillan India Limited.

Vimal Shankar Singh, "Development Banking in India", Deep and Deep Publications, New Delhi, 1985.

