# CHAPTER - V

## SUMMARY, CONCLUSIONS AND SUGGESTIONS

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## 5.1 SUMMARY:

In today's dynamic world, the socio-economic development of a nation largely depends on the output of its industries. Particularly, after the Second World War, broadening of industrial base constituted a major strategy in the activities aimed at rejuvenating the economy in many developing countries. However, the development of industrial base requires bringing together of the real resources. Finance is the indispensable medium through which these resources are organized and set to productive use.

In India, while in pre-Independence era, setting up of an industry and its financing were left essentially to the private sector, in the latter years, the country's industrial policy has had to undergo structural changes keeping in view the development aspirations. More specifically, the Government realized the importance of institutional finance to ensure accelerated industrial growth so as to raise both income and employment levels.

Industrial finance, that is, the capital required by an industrial unit to finance its activities, could broadly be divided into two categories, namely, (1) the fixed capital, and (2) the working capital. Fixed capital refers to the money invested in the fixed assets, while the capital required for meeting the industrial unit's day-to-day operational activities is termed as the working capital. Generally, the commercial banks can take care of the unit's working capital requirements, but special institutions are necessary to cater to the requirement of the fixed capital (which, almost invariably, is needed on long-term basis).

In addition to offering such long-term industrial finance, these institutions are usually looked upon to offer such financial and management services as:

1. Subscription to debentures,
2. Guaranteeing the loans raised,
3. Guarateeing the deferred payments for capital assets,
4. Underwriting the issues of stocks, shares, bonds and debentures,
5. Acting as agents of the Central or the State Governments.

Accordingly, the first-ever national-level industrial finance institution in the country, namely, the Industrial Finance Corporation of India (IFCI), was set up by the Government in the year 1948, mainly to act as a gap-filler and to supplement the efforts of the then existing channels of the industrial finance. The Industrial Finance Corporation Investigation Committee (1953), however, pointed out the inadequacy of the feeble efforts in meeting the long-term credit requirements of the Indian industry. In the year 1961-62, yet another premier institution, namely, the Industrial Credit and Investment Corporation of India (ICICI) was set up for meeting the long-term financial needs of large industries. Both these institutions still had certain lacunae in their functioning and to overcome these, the Industrial Development Bank of India (IDBI) was set up as a subsidiary of the Reserve Bank of India in the year 1964, primarily to extend financial assistance to the small-scale industries and to the industries being established in the backward areas.

By this time, however, the twin problems of obsolescence of technology and poor- and/or mis-management had made their appearance on the industrial horizon of India; as a result of which, a sizeable number of industrial units had gone sick, making the Government apprehensive about the social and economic consequences of the massive retrenchment and large-scale unemployment should these sick-units were allowed to close down. Accordingly, the Government initiated the setting up of the Industrial Reconstruction Corporation of India in the year 1971, to provide financial, managerial and technical assistance to the sick industrial units.

By early 'sixties, the importance of harnessing the savings of the small investors for the purpose of providing industrial finance was well realized and the Unit Trust of India came into being in the year 1964.

The specific aims and objectives of these financial institutions were well defined and the relevant Acts passed by the Parliament had outlined the functions of each of these institutions; for example, IFCI was expected to grant loans and advances both in Rupee and foreign currencies repayable within 25 years; ICICI was expected to offer equity participation in large capital-intensive industries; IDBI was involved in both direct and indirect financial assistnace to industries in small-scale sector and also those in the backward areas; IRCI was charged exclusively with the responsibility of nursing back to health the sick industrial units; while the UTI provided small- and medium-income group investors with an opportunity of investment in industrial securities.

Even against the backdrop of all this flurry of activity, it was realised as early as 1951 that besides having national-level industrial finance institution(s), it is also necessary to set up smaller size financial institutions to particularly promote the industrial growth in the medium- and small-scale sector at the State-level. The Parliament, therefore, enacted an appropriate legislation to that effect, which, in turn, empowered the State Governments to set up their own State Financial Corporations with the express purpose of extending financial assistance to small- and medium-scale industries within the State. So far, eighteen States of the Union have established their respective State Financial Corporations

(SFCs). The share-capital of these SFCs has been subscribed by the State Governments, the Reserve Bank of India, Scheduled and Cooperative Banks within the State and the Insurance Companies. The shares and the bonds of the SFCs are guaranteed by the respective State Governments and the SFCs are further authorized to raise additional finances through the issue of debentures. The functions and the activities of the SFCs are already described in detail in Chapter-II.

The **Karnataka State Financial Corporation** (prior to 1973, Mysore State Financial Corporation) was established on March 30, 1959, under the State Financial Corporations Act. Within last three decades, the Corporation has recorded a spectacular growth by spreading its activities in all the districts of the State. For the purpose of easier and smooth administration, the Corporation has set up four zonal offices and also an office at every district headquarters. The State Financial Corporations Act lays down the general rules for the operations of the SFCs and regarding the matters relating to the policies on the size, duration, nature, security and margin, etc., of the financial assistance are clearly described therein. The Corporation can innovate on the basic guidelines and formulate appropriate finance schemes for propspective beneficiaries.

Over the years, the Corporation has honourably discharged the obligation placed on it and has formulated nearly 24 different finance schemes that cover almost the entire spectrum of the industrial activity in the State, right from helping tiny and village industries to financing modern-technology industrial ventures. It has identified special groups like 'disabled entrepreneurs', 'educated unemployeds', 'ex-servicemen', 'medical professionals', 'SC/ST entrepreneurs', etc., for offering custom-designed financial assistance package.

The industry-wise statistics about the Corporation's financial assistance shows that a lion's share has gone to 'food products' and 'metal products'; while 'miscellaneous manufacturing-industrial services' also were the recipient of a large share of its assistance. 'Transport' followed next, while 'electrical equipment manufacture' and 'textile manufacture' commanded about equal attention from the Corporation. It is also seen that a large quantum of the assistance has gone to the units availing between Rs.20.0-30.0 lakhs (i.e. the private limited companies in the higher-ranges of the small-scale sector), followed by the units availing between Rs.0.50-5.00 lakhs (i.e. mostly the proprietory and partnership concerns). On sectoral classification, it is seen that the private sector units were the largest beneficiaries of the Corporation's assistance. The purpose-wise classification shows that the Corporation enthusiastically patronized 'new projects', though it also made the necessary finances available for the purposes of expansion, diversification, modernization, rationalization, rehabilitation and supplementary assistance for cash over-run.

The above recapitulation concludes a generalized summary of the preceding Chapters. In the succeeding paragraphs, an attempt is made to arrive at certain conclusions based on the data analysed and interpreted earlier.

## 5.2 CONCLUSIONS:

(1) The State of Karnataka is considered to be an industrially developing State in the Indian Union. There are a number of important large and medium scale industries as well as public sector enterprises located in the State. The State Government, through its Department of Industries and Commerce, extends substantial incentives and concessions for promoting the industrial growth, particularly the small-scale industries, in the State. Consequently, as at the end of March 1989, there were about 95,000 registered small-scale industrial units in the State. These small-scale industrial units were mostly concentrated in the districts of Bangalore, Mysore, Belgaum, Tumkur, Shimoga and Dakshina Kannada.

(2) The Karnataka State Financial Corporation, in its capacity as a regional development bank, plays a pivotal role in the growth of small-scale industries in the State. During last thirty years of its operations, the Corporation has provided financial assistance of over Rs.735 crores to nearly 33,000 units; of which, about 26,000 (80%) units are in the small-scale sector. Amount-wise, nearly

70% of the assistance has gone to this sector.

(3) The operations of the Karnataka State Financial Corporation have multiplied exponentially during last three years. The statistical analysis in the preceding Chapter shows that out of the total financial assistance, nearly 75%, both in terms of number and amount, assistance was sanctioned during this period. More emphasis was laid on extending the financial assistance to the small-scale sector, especially to the projects coming up in the backward and rural areas of the State.

(4) It is also seen from the statistics that the Corporation strives hard to enlarge the scope of its assistance, keeping in view the diverse needs of a wide range of entrepreneurs who seek its assistance for establishing industrial ventures. As a positive measure in this direction, during the year 1988-89 alone, the Corporation introduced three new schemes, namely, (a) Single-window scheme, (b) Rural industrialization scheme, and (c) Scheme for assistance to the mining industries.

(5) In addition to its normal activities, the Corporation also operates the IDBI-sponsored scheme of providing equity-participation type assistance to the woman-entrepreneurs for setting up new industrial projects

in the small-scale sector. The introduction of this Scheme has led to the emergence of more number of woman-entrepreneurs in such diverse industrial fields as egineering, food-processing, plastics, garment-manufacture, etc.

(6) The Corporation extends term loans for setting up small hospitals and nursing homes with the objective of making available medical and healthcare facilities in the rural and urban areas of the State. Since the inception of this scheme in the year 1987, 85 beneficiaries have availed the Corporation's assistance to the tune of Rs.6.44 crores.

(7) The Corporation has recognized that reliable road transport facilities (both passenger and goods) are the nerve system of a developing economy, especially for promoting the growth of industry and tourism. The State Government has identified the 'transport industry' as a priority sector for the extension of financial assistance. In pursuance of the Government policy, the Corporation has extended its financial assistance to this sector to the extent of Rs.63.56 crores (5,210 beneficiaries) as on 31.3.1989.

(8) The District of Bidar had a long reputation of being a 'no-industry district' in the State; but today, with

the financial assistance granted by the Corporation to the entrepreneurs, the district is humming with industrial activity; although in the small-scale sector. The cumulative assistance, as at 31.3.1989, stands at Rs.28.77 crores to 919 entrepreneurs.

The above are the broad conclusions that emerge out of the analysis of the Corporation's financial assistance activities. On the whole, it could be recorded, without reservations, that the Corporation, has, in its own way and within the framework of the State Financial Corporations Act, ably shouldered the responsibility cast on it for promoting and sustaining the industrial development in the State of Karnataka. The Corporation ought to be particularly commended for its enlightened approach in meeting the aspirations of the prospective entrepreneurs through effective implementation of as many as 24 specific assistance schemes.

Nevertheless, there are, and always will be, some areas where performance could be improved, innovations introduced and implementation reinforced. Accordingly, the researcher ventures to put forward the following specific suggestions.

## 5.3 SUGGESTIONS:

(1) The State of Karnataka is replete with places of tourist

interest; as a matter of fact, the influx of tourists, both national and foreigners, into the State is growing year by year. Creation of proper infrastructure for the further development of tourism industry can generate large revenues in the long run. The Corporation may formulate special assistance schemes for 3-Star hotels, airconditioned luxury coaches and such other tourism-related activities, particularly at places like Hampee (relics of old civilization), Shravana-Belgol (a Jain pilgrimage centre), Halebid and Bellur (seat of the erstwhile Hoyasala Dynasty) and Jog Falls (a nature spot). All these places also happen to be in the backward areas of the State and their systematic development as tourist centres would help in opening new business avenues, besides generating substantial employment opportunites for the local population.

(2) As per its present policies, the Corporation has kept the following activities out of the purview of its financial assistance:

(a) Roller-flour mills,

(b) Photographic studios, Photocopying centres and Colour Processing Laboratories,

(c) Seafood and marine product industries,

(d) Forest products (including saw-mills).

The Corporation may consider these activities for being eligible for its financial assistance, since these also form a major segment of the State's economy both in terms of the manpower employed and revenues generated.

(3) The Corporation's performance in the past as regards assistance to tiny industries and village artisans is commendable. It is, however, noticed that the prospective beneficiaries have to repeatedly visit the Corporation's branch office at the district headquarters for completing the formalities. In order to alleviate the beneficiaries' wearisome, time-consuming and at times, monetarily strenuous travels to and fro the district headquarters, it would be advisable for the Corporation's officers to hold once-in-a-month/fortnight camps at the taluka headquarters where pre-disbursement formalities could be completed and the loanee called to the district headquarter only for the disbursement of the loan.

(4) As a result of advent of modern technology and also because of the inflationary pressures, manufacturing and service industries have now become capital-intensive and the initial outlays are rather heavy. An industrial unit cannot remain cost-competitive and financially-viable if it turns its back on the latest equipment that ensures faster output and better quality products. According to present norms, for being eligible to 'small-scale' status, an industrial unit has to restrict its investment

in fixed assets and plant and machinery to Rs.35.00 lakhs. This limit has now become outmoded by several lakhs of Rupees; and in view of the changed economic scenario in the country and the necessity to boost industrial production, needs to be suitably amended. This, of course, is a matter for the consideration of the national policy planners; yet, the Corporation may, on its own, consider genuine and deserving cases for extending the assistance beyond the present stipulated limit, without withdrawing the preferential treatment accorded to the small-scale industries.

(5) The commitment charges presently levied by the Corporation at the rate of 1% per annum may be brought down to 0.5% per annum; as many a time, completion of pre-disbursement formalities is delayed due to the reasons and circumstances beyond the control of the loanee.

(6) The researcher has only cursorily studied the Corporation's performance with respect to the recovery of the outstanding loans, since this particular area in itself could be a subject matter of an independent research. Still, it is felt that the Corporation should strengthen its recovery machinery; but instead of resorting to coercive measures, should adopt a helping approach towards a unit in difficulty. To this extent, the Corporation

may arrive at some arrangement with the unit's bankers (who have met its working capital requirements) so as to obtain correct feedback on the unit's performance, monitor its operations and even extend management expertise, wherever necessary.

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