

Impact of Karnataka state finance corporation on micro, small and medium enterprise development in Karnataka, India

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Abstract

Objectives: To assess the institutional support to micro, small and medium enterprise development in Karnataka and socio economic characteristics of entrepreneur.

Methods/Statistical analysis: The Hyderabad-Karnataka region was purposively selected which is an industrially backward region of Karnataka. Five respondents from each district constituting total sample size of 30 ABI owners who have borrowed loan from KSFC's were selected. The secondary data was collected from KSFC for the period of 14 years from 2001 to 2015. To analyse the objectives tabular analysis, compound growth rate and simple averages and percentages are worked out.

Results: Hederabad-Karnataka is industrial backward region in the state wherein Karnataka State Financial Corporation (KSFC) played important role and it accounted 33.78 and 12.31 per cents of total Agro Based Industries (ABI) and Non-ABI sanctioned in the state respectively. Majority of the scheme introduced by KSFC have shown positive and significant growth except National Equity Fund, Mahila Udyam Nidhi, Technology Upgradation Fund and Credit Linked Capital Subsidy. The maximum benefit availed by ABI owners was from Mahila Udyam Nidhi (3.86 lakhs) followed by interest subsidy scheme for SC/ST entrepreneurs (3.17 lakhs), energy saving scheme (1.40 lakhs) with total subsidize interest rate benefit of 11.89 lakhs.

Applications: Majority of scheme operated by KSFC have shown positive growth in terms of distribution of credit to agro based industries. Government should establish more number of Agro Industry in the region to improve livelihood of rural poorer.

Keywords: Agro industries, Corporation, Growth, Enterprises and Scheme

1. Introduction

Karnataka State Financial Corporation is a State level financial institution established by the State Government in the year 1959 under the State Financial Corporation Act 1951 to cater to the long term financial needs of small and medium enterprises (SME) in the state of Karnataka. KSFC has contributed significantly to the growth of Small scale industries (SSI), development of backward regions and promotion of first generation entrepreneurs in the state, it is one of the fast track term lending financial institutions in the country with assistance to over 1,69,244 units amounting to nearly ₹ 13,811 crores over the last 56 years. KSFC is one of the robust and professionally managed state financial corporations [1].

In the late 90s, the corporation went through a correction mode. This coincided with the impact of globalization and liberalization on the MSMEs. Being the prima-dona for the MSMEs in the state, the corporation had to take severe economic beating due to the fall of MSMEs in the state in the post liberalization era. However, with committed support of the major stakeholders namely the Government of Karnataka and SIDBI, the Corporation bounced back to good health from the year 2003-04.

KSFC is providing financial assistance to the priority sector with maximum emphasis on food processing industries. Furthermore, ministry of food processing is also giving subsidy through KSFC for establishment of agro-industries. It has given financial assistance to establish many agro industries namely rice mills, dall mills, rice bran solvent extraction units, chilli plants, dairy plants, seed processing, sugar industries, cold storage, warehouse, construction of godowns, etc. It is also acting as a facilitator between NAFED, NABARD, State Government, Central Government and Agro-Entrepreneur.

It acts as an agent of the Central Government, the State Government the IDBI, the IFCI or any other financial institutions notified by the Central Government in respect of any matter connected with, or arising out of, the grant

of loans or advances to any Industrial concern, or subscription to debentures of an industrial concern or relating to the business of the IDBI, SIDBI, IFCI or any other financial institution.

The main objective of the study is to analyze the performance of Karnataka State Financial Corporation's (KSFC) in providing financial assistance to SSI in liberalized era. The study is analytical in nature, throwing light on the financing pattern of SSI sector by KSFC. It has failed in its objective of balanced development, as most of the sanctions have been made only to a few districts of Karnataka and a small share of the total amount sanctioned has gone to the backward districts. Moreover, the percentage share of arrears is increasing and recovery ratio is increasing year-by-year. Over the last 50 years, it is one of the robust and professionally managed state financial corporations. It has contributed most significant for the growth of small scale industries (SSIs) backward area development and promotion of first generation entrepreneurs. Its achievement in these areas is unparalleled [2].

2. Methodology

The study was conducted in Hyderabad Karnataka (H-K) region, which constituted six districts namely Bidar, Kalaburagi, Yadgir, Raichur, Ballari and Koppal. The entire area of H-K region falls under the North Eastern Dry zone of Karnataka.

The purposive sampling technique was adopted in designing sampling frame for the study. The Hyderabad-Karnataka region was purposively selected with all the Karnataka State Finance Corporation (KSFC) branches covered under the jurisdiction of North Eastern Dry zone of Karnataka. Further in all the 6 districts 5 sample respondents who have borrowed loan from respective KSFC's branches constituting total sample size of 30 ABI owners were selected. Hence, totally 30 respondents were considered for the study. The data collected were presented in tabular form to facilitate easy comparison. This technique of tabular presentation was employed to compile the general and socio-economic characteristics of respondents with a simple statistical tool like averages, ratios and percentages were computed to interpret the results properly.

Both primary and secondary data was used for analysing impact of the Karnataka State Finance Corporation. The secondary data was collected from KSFC branch offices of selected district and primary data was collected from the selected respondents. The data relating to the financial statements like balance sheet, cash book, cash inflow and outflow of KSFC was collected from financial statement of KSFC circle IV and circle III for a period of last 14 years. The primary data was collected from sample respondents on age, education, etc.

1. Tabular analysis

The data collected were presented in tabular form to facilitate easy comparison. This technique of tabular presentation was employed to compile the general and socio-economic characteristics of respondents with a simple statistical tool like averages, ratios and percentages were computed to interpret the results properly.

2. Compound growth rate analysis

In order to assess the trend in sanction and disbursement of loan by selected KSFC branches, the compound growth rate analysis was employed. Compound growth rates were computed using the exponential function of the form,

$$Y_t = ab^t u_t \dots \dots \dots (1)$$

Where,

Y_t : Dependent variable

a: Intercept constant

b: Regression coefficient

t: Years which take values, 1, 2, ..., n

u_t : Disturbance term for the year t

For the purpose of estimation, equation (1) was transformed into log linear form coefficients were estimated using Ordinary Least Square (OLS) technique. The compound growth rate (g) in percentage was then computed from the following relationship,

$$g = (\text{Antilog of } \ln b - 1) * 100.$$

The regression coefficient were tested for their significance level using, 't' test which was defined as,

$$|t| = \frac{bi}{SE(bi)} \sim tn - 1$$

Where,

bi= Regression coefficient

SE (bi)=Standard error of the regression coefficient

n-1 = Degrees of freedom

3. Discussion

The status of industries in Hyderabad Karnataka region revealed that, the numbers of industries, especially small scale industry were lesser in number compared to other part of the state this might be due to imbalance in regional development, poor infrastructure facilities like rail and road connectivity to major cities of the state, non availability of raw material etc. Further, among the different districts of H-K region, majority of the industrial areas were located in Ballari followed by Kalaburagi, Yadgir, Bidar, Raichur and Koppal is shown in Table 1. Similarly, the size of the small scale industries was highest in Ballari district (20084) which provided employment to 101854 persons. In Kalaburagi, 18189 small scale industries were established, which have given employment to 78011. Similar trend of small scale industries and employment pattern were observed in other districts of H-K region.

Table 1. Industrial scenario of the study area

S. no.	Particulars	Kalaburagi	Bidar	Yadgir	Raichur	Ballari	Koppal	H-K region total	Karnataka
1	Registered small scale unit	18189 (28.08)	8327 (12.85)	861 (1.33)	10168 (15.70)	20084 (31.00)	7154 (11.04)	64783 (100.00)	323915
2	Estimated avg.no. of daily worker employed in small scale industries	78011	47023	3100	49007	101854	42933	321928	1609640
3	Employment in large and medium industries	5577	1864	215	3564	4822	3991	20033	100165
4	No. of industrial area	4	2	4	4	6	2	22	110

Source: Directorate of District Industries Centre Reports [6] Note: Figures in parenthesis indicate per cent to H-K region total

The size wise number of units sanctioned by KSFC during study period is presented in Table 2. Totally 985 MSME AB1 units were sanctioned in H-K region constituting 863,457 and 165 micro, small and medium enterprises respectively. The AB1 share in the total number of units sanctioned in Karnataka (2196 units) accounted 33.78 per cent of the state total MSME unit sanctioned by KSFC. Where as in case of non-AB1 H-K region accounted only 12.31 per cent. Similar trend were observed across the size of units in non-AB1 sector. This shows that the share of AB1 was significantly higher (33.78%) compared to non-AB1 sector (12.31%). The Analysis across the districts of H-K region indicated that in case of AB1 Koppal accounted for 34.11 per cent followed by Ballari (31.27%), Raichur (14.82%), Kalaburagi (13.10%), Bidar (4.37%) and Yadgir (2.34%). The similar trend was observed across the size of units under AB1 sector. In case of non-AB1 sector, similar trend of share across the district of H-K region were observed.

Table 2. Size wise number of units sanctioned by KSFC during study period

Sl. no.	District	Agro based Industries (ABI)				Non-Agro based Industries (Non-ABI)			
		Micro	Small	Medium	Total	Micro	Small	Medium	Total
1.	Bidar	27 (7.44)	9 (1.97)	7 (4.24)	43 (4.37)	31 (5.35)	112 (9.92)	11 (8.87)	153 (8.35)
2.	Kalaburagi	62 (17.08)	49 (10.72)	18 (10.91)	129 (13.10)	124 (21.42)	186 (16.47)	34 (27.42)	344 (18.78)
3.	Yadgir	5 (1.38)	13 (2.84)	5 (3.03)	23 (2.34)	19 (3.28)	50 (4.43)	5 (4.03)	74 (4.04)
4.	Raichur	42 (11.57)	89 (19.47)	15 (9.09)	146 (14.82)	77 (13.30)	164 (14.53)	15 (12.10)	256 (13.97)
5.	Ballari	143 (39.39)	109 (23.85)	56 (33.94)	308 (31.27)	148 (25.56)	262 (23.21)	31 (25.00)	442 (24.13)
6.	Koppal	84 (23.14)	188 (41.14)	64 (38.79)	336 (34.11)	180 (31.09)	355 (31.44)	28 (22.58)	563 (30.73)
7.	H-K region*	363 (32.01)	457 (34.54)	165 (35.95)	985 (33.78)	579 (12.77)	1129 (12.09)	124 (12.20)	1832 (12.31)
8.	Karnataka	1134	1323	459	2916	4534	9336	1016	14886

Note: 1. Figures in parenthesis indicate per cent respective H-K region total

2.*= Figures in parenthesis indicate per cent respective Karnataka's total

The comparison of number of units of MSME sanctioned under agro based industries and non agro based industries sector revealed that Koppal district accounted for 34.11 and 30.73 per cent of the industries sanctioned by KSFC in H-K region, respectively. In case of agro based industries, Koppal district secured major share (34.11) followed by Ballari, Raichur, Kalaburagi, Bidar and Yadgir districts. Similar trend with respect to sanction by KSFC was observed under non agro based industries sector also. The highest share of Koppal and Ballari in total MSME might be due to establishment of small units of paddy processing units, food products, spinning and weaving of textile units which require lesser investment.

Table 3. Schemes operated by KSFC and their share in the total disbursement

Sl.no.	Name of the scheme	Per cent share
1	General loan scheme***	14.45
2	Single window scheme***	6.13
3	Interest subsidy scheme for SC/ST entrepreneurs***	5.40
4	Mahila Udyama Nidhi Loan Scheme***	1.80
5	Soft seed capital scheme for SC/ST entrepreneurs***	1.10
6	Credit Linked Capital Subsidy Scheme (CLCSS) ***	2.11
7	Technology Upgradation for Textile Industries***	4.57
8	Interest Subsidy for Warehouse and Cold Storage ***	2.15
9	Assistance to Construction Activity (Term Loans) ***	5.70
10	Working Capital Term Loan For Existing Units***	4.00
11	Acquisition of Existing Assets and Enterprises***	2.00
12	Equipment Finance Loan Scheme***	5.35
13	Non -Convertible Debentures***	0.80
14	Acquisition of Land / Building / Commercial Space***	4.35
15	Foreign Letter of Credit***	1.10
16	Loan Scheme for Construction Activity***	4.50
17	Assistance for Marketing Related Activities	2.10
18	Assistance to Entertainment Industry	7.77
19	Assistance to Tourism Related Activities	5.40
20	Rental Discounting Scheme	1.30
21	Scheme for Financing Energy Saving Projects	2.20
22	Composite Loan Scheme	0.42
23	Disabled Entrepreneurs Loan Scheme	1.80
24	Hire Purchase Scheme	0.75
25	Ex -Serviceman Loan Scheme	0.25
26	Scheme for office Automation and Training Institutes	2.00
27	Scheme for Ready Built / Construction of New Office Building	4.10
28	National Equity Fund Scheme	0.25
29	Health Care service	1.80
30	Qualified Professionals Loan Scheme	3.80

Note: *** indicates Agro based industries are eligible to avail loan from the scheme

Similar result were reported by [3] studied the performance of agro based industries in India where in agro based industries accounted for major share in the National GDP.

The KSFC in consultation with government has implemented many schemes. The study has identified 30 such schemes operating in the state. It is clear from Table 3 that KSFC has operated many schemes for the development of MSME in the state. The important schemes of the KSFC implemented in the state in general and H-K region in particular were General Loan Scheme(14.45%), Single Window Scheme(6.13%), Assistance to construction activity/Term loan(5.70%), Interest Subsidy Scheme for SC/ST Entrepreneur(5.40%), Technological Upgradation for Textile Industry(4.57%), Credit Linked Capital Subsidy Scheme (2.11%), Mahila Udyama Nidhi Loan Scheme(1.80%), Soft Seed Capital Scheme for SC/ST Entrepreneurs(1.410%), etc. were the major schemes operated by KSFC.

Table 4. Socio-economic characteristics of ABI owners(n=30)

Particulars	Sample respondents	% to respective total
I. Age Group (no.)		
a. < 30 years	1	3.33
b. Between 30-40 years	12	40.00
c. Between 41-50 years	14	46.67
d. > 50 years	3	10.00
Average age (years)	42.97	
II. Education Level (no.)		
a. Illiterate	--	--
b. Primary	--	--
c. High School	9	30.00
d. College and above	21	70.00
III. Family Size (no.)		
a. Small (<4 members)	2	6.67
b. Medium (4-6 members)	23	76.67
c. Large (>6 members)	5	16.66
Average family size	5.43	
IV. Land Holding (no.)		
a. Small farmers (< 5 acre)	3	10.00
b. Medium farmers (5- 10 acre)	9	30.00
c. Large farmers (> 10 acre)	18	60.00
Average land holding (in acre)	17.23	
I. Annual income (₹)		
a. Upto ₹5,00,000	3	10.00
b. 5,00,001-₹25,00,000	25	83.33
c. >₹25,00,000	2	6.67
II. Loan outstanding (₹)		
a. Institutional	6444273	93.95
b. Non-institutional	415000	6.05
c. Total	6859273	100.00

The socioeconomic characteristics of the agro based industries (ABI owners) owners are presented in Table 4. Majority of the ABI owners were educated up to college (70%) followed by high school (30%) and none of them are illiterate. The average age of the ABI owner was 43 years and majority of them are between 41 to 50 years (46.67%) followed by 30-40 (40%) year age. Further, majority of them are having medium family size with 4-6 members (76.67%) in each family. It is important to note that, 60 per cent of ABI owner were belong to large size category and were engaged in agricultural activities also. The average land holdings of the owners was 17.23 acre with having average income of ₹ > 5,00,000 (83.33%). Majority of them (83%) were having income between ₹ 5 to ₹ 25 lakh. On an average, outstanding loan of the institutions and non-institutions were ₹ 64.44 lakh (93.95%) and ₹ 4.14 lakh (6.05%) respectively with total average outstanding of ₹ 6859273. The results are in line with study conducted by [4] on comparative economic efficiency of modern and traditional redgram processing mills in Karnataka.

The socio-economic characteristics of agro based industries owners revealed that majority of the respondents were educated college and above level. It is also important to note that majority of ABI owners are between age group of 41-50 years indicating young entrepreneurs are involved in MSME activities. Similarly, majority of them are having medium family size with 60 per cent of them were agricultural background and were having average land holding of 17.23 acres. The majority of respondents were having average income of more than ₹5 lakhs. In contrary to this, on an average, outstanding loan amount of the financial institutions and private institutions were ₹ 64.44 lakh (93.93%) and ₹ 4.14 lakh (6.05%), respectively with total average outstanding of ₹ 68.59 lakh by ABI owners. The findings of the study are in line with the study conducted by [5] on performance of dal industry in Kalaburgi district.

Table 5. Scheme wise benefit availed by micro, small and medium enterprise from KSFC (n=30)

Name of the loan Scheme	Number of beneficiaries	Loan availed (₹ Lakh)	Interest rate charged by KSFC		Subsidised interest rate		Actual amount paid
			%	Value (₹ Lakh)	%	Value (₹ Lakh)	Value (₹ Lakh)
a. Mahila Udyam Nidhi	2	38.60	14	5.40	10.00	3.86	1.54
b. Interest subsidy scheme for SC/ST entrepreneurs	4	31.70	14	4.44	10.00	3.17	1.27
c. Energy saving scheme	1	61.50	14	8.61	2.28	1.40	7.21
d. RRTUF-SIDBI project	2	38.62	14	5.41	2.44	0.94	4.46
e. Privileged entrepreneurs scheme	2	43.68	14	6.12	2.11	0.92	5.19
f. General loan scheme	8	36.85	14	5.16	2.25	0.83	4.33
g. Single window scheme	3	17.94	14	2.51	2.36	0.42	2.09
h. Corporate loan scheme	5	21.36	14	2.99	1.00	0.21	2.78
i. National equity fund	3	9.53	14	1.33	1.35	0.13	1.21
Total	30	299.78	14	41.97	3.75	11.89	30.08

The scheme wise subsidies and incentives availed by ABI's is presented in Table 5. Maximum number of beneficiaries benefited in general loan scheme followed by corporate loan, national equity fund, single window scheme and privileged entrepreneur scheme. On an average, respondent have availed ₹ 36.85 lakh loans from KSFC and availed rebate benefit of ₹ 0.83 lakh due to regular repayment and with fulfilment of terms and conditions. On an average, ABI owners have availed loan amount of ₹ 61.50 lakh, ₹ 43.68 lakh, ₹ 38.62 lakh, ₹ 36.85 lakh, ₹ 21.36 lakh and ₹ 17.94 lakh under energy saving scheme, privileged entrepreneur scheme, RRTUF-SIDBI project, general loan scheme, corporate loan scheme and national equity fund respectively. The rebate received among different scheme indicated highest rebate under Mahila Udyam Nidhi (₹ 3.86 lakh/annum), interest subsidy scheme for Sc/St entrepreneurs (₹ 3.17 lakh/annum), energy saving scheme (₹ 1.40 lakh/annum) followed by RRTUF-SIDBI project (₹ 0.94 lakh/annum), privileged entrepreneur (₹ 0.92 lakh/annum), general loan scheme (₹ 0.83 lakh/ annum), single window scheme (₹ 0.42 lakh/ annum), corporate loan scheme (₹ 0.21 lakh/ annum) and national equity fund (₹ 0.13 lakh/ annum).

4. Conclusion

Out of the total number of MSME sanctioned by KSFC, H-K region accounts 33.78 and 12.31 per cents of total ABI's and non-ABI sanction respectively. Majority of the scheme introduced by KSFC have shown positive and significant growth except National Equity Fund, Mahila Udyam Nidhi, Technology Upgradation Fund and Credit Linked Capital Subsidy. Agro based industries owners have average outstanding loan amount was ₹ 68,59,273 and institution credit accounts 93.95 per cent of total outstanding amount of respondents. The maximum benefit availed by ABI owners was from Mahila Udyam Nidhi (₹ 3.86 lakhs) followed by interest subsidy scheme for SC/ST entrepreneurs (₹ 3.17 lakhs), energy saving scheme (₹ 1.40 lakhs) with total subsidize interest rate benefit of ₹11.89 lakhs. Therefore, NABARD and other financial institution should come forward to provide financial assistance for establishing Agro Industry in the backward region of the state wherein cereal and pulses are dominated in the region.

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