Institutional Financing for Micro, Small and Medium Enterprises: A Study of KSFC

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ABSTRACT
Karnataka State Financial Corporation (KSFC) is one of the leading industrial financial institutions. Since, from the inception KSFC has been working as incubator and also a nodal agency for many state and central government schemes and subsidies for MSMEs with assistance to over 0.1681 million units amounting to about Rs. 1.3135 million crore over the last 55 years since from its inception to as of 2014-15. The present study sheds light on the total amount sanctioned and number of units benefitted by the KSFC in Karnataka state since from past a decade. Outcome of the study shows that in the last decade KSFC supported 12000 units with an investment of Rs.0.5 million crore.

Keywords---- MSMEs, KSFC, Promotion of MSMEs.

I. INTRODUCTION
Many thinkers percept, Micro, Small and Medium Enterprises (MSMEs) are the focal point of Economic growth. In order to MSMEs various, Central, State and Private Institutions, such as, IFCI, IDBI, SIDBI, SFCs, NSIC, Venture Capital firms, etc. have evolved in India. These institutions are playing very vital role in facilitating financial and non financial resources for Small Scale Industries according to their desires. But, many researchers proved that SSIs are facing financial problems. Though, the contribution of MSME sector towards employment, industrial production, export, etc. is admirable. Therefore, development of this sector is very important in order to support the economy of the nation and poverty alleviation.

II. DEFINITION OF MICRO, SMALL AND MEDIUM ENTERPRISES
In accordance with the provisions of Micro, Small & Medium Enterprises Development (MSMED) Act, 2006, the Micro, Small and Medium Enterprises (MSME) are classified into two Classes:
Manufacturing Enterprises: The enterprises engaged in the manufacture or production of goods pertaining to any industry specified in the first schedule to the Industries (Development and Regulation) Act, 1951. The Manufacturing Enterprises are defined in terms of investment in Plant & Machinery.

Service Enterprises: The enterprises engaged in providing or rendering of services defined in terms of investment in equipment.

<table>
<thead>
<tr>
<th>Micro Enterprises</th>
<th>Where investment in plant and machinery does not exceed Rs.25.00 lakhs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small Enterprises</td>
<td>Where the investment in plant and machinery is more than Rs.25.00 lakhs but not exceeding Rs.5.00 crores.</td>
</tr>
<tr>
<td>Medium Enterprises</td>
<td>Where the investment in plant and machinery is more than Rs.5.00 crores but does not exceed Rs.10.00 crores.</td>
</tr>
</tbody>
</table>

III. AN OVERVIEW OF KSFC

Source: MSMED Act, 2006
Karnataka State Financial Corporation is a State level financial institution established by the state government in the year 1959 under the State Financial Corporations act (SFCs Act) 1951 to meet mainly the long term financial needs of small and medium enterprises (SME’s) in the state of Karnataka.

### IV. OBJECTIVES OF KSFC

The corporation has been established with the basic objectives of promoting industrial development in Karnataka. KSFC was desired to give particular emphasized small and medium scale industries keeping in line with the IDBI and SIDBI and either specialized institution or the government. It was felt that no industrial project which is due important should not perish due to lack of timely and adequate finance.

### V. FUNCTIONS OF KSFC

According to sec25 of SFCs act 1951. The function of KSFC includes:

- **a)** Guaranteeing on such terms and conditions as may be agreed upon,
- **b)** Loans raised by industrial concerns, which are repayable within a period not exceeding 20 year’s and floated in the public market.
- **c)** Loans raised by industrial concerns, from scheduled banks or state co-operative banks or other financial institution.
- **d)** Guaranteeing, on such terms and conditions as may be agreed upon deferred payment due from any industrial concerns in connection with its purchase of capital goods within India,
- **e)** Under writing of the issue of stock, shares, bonds or debentures by industrial concerns. Transferring for consideration any instruments relating to loans and advance granted by it to industrial concerns.
- **g)** Acting as agent of the central Government of the state government or the development bank (IDBI) or the small industries banks (SIDBI) or the IFCI limited formed and registered under the companies act,1956 or any other financial institution notified in this behalf by the central government in respect of any matter connected with, or arising out of, the grant of loans or advances to an industrial concern, or subscription to debentures of an industrial concern or relating to the business of the development banks, small industrial bank IFCI limited of financial institution.
- **h)** Subscribing to or purchasing of the stock, shares, bonds or debentures of an industrial concern or any other concern.
- **i)** Retaining as part of its assets any stock. Shares bonds or debentures that it may acquire by subscription or in fulfillment of it underwriting liabilities and disposing of the stock, shares bonds or debentures so acquired.
- **j)** Granting loans or advances to or subscribing to debentures of in industrial concern. Accepting or discounting promissory notes and bills of exchange made, drawn, or accepted or endorsed by industrial concerns or by any person selling capital goods manufactures by one industrial concern, to another industrial concern.
- **k)** Undertaking research and surveys for evaluating or dealing with marketing or investments, or undertaking and carrying on techno-economic studies or other activities in connection with the development of any industry.
- **l)** Providing technical and administrative assistance to any industrial concern or any person for the promotion, management or expansion of any industry.
- **m)** Planning and assisting in the promotion & development of industries.
- **n)** Acting as the trustee for the holders of debenture of other securities.
- **o)** Leasing, sub-leasing or giving on hire purchase of industrial plant, equipment, machinery or any other assets.
- **p)** Factoring
- **q)** Providing export related credit and services.
- **r)** Undertaking money market related activities.
- **s)** Setting up of mutual funds and undertaking assets management activity.
- **t)** Promoting, forming or conducting or assisting in the promotion, formulation or conduct of companies, subsidiaries, societies, trusts or such other association of persons as it may deem, fit.
- **u)** Opening or confirming or endorsing letters of credit and negotiating or collecting bills & other documents drawn hereunder.
- **v)** Doing such other business as the small industries bank may otherwise and or generally the doing of such acts and things as may be incidental to or consequential upon, the exercise of its powers or the discharge of duties under the act.
providing constancy and merchant banking services.

VI. REVIEW OF LITERATURE

Plethora of literatures are available in the field of industrial finance, some of the important literatures which relates to this study is as follows,

Prime Minister Task Force, (2010) a committee was framed in the year 2010 under the chairmanship of the prime minister of India to find out the problems of Small Scale Industries in India. This task force has found various problems which restricts the growth of SSIs among them Financial Problem is the major one.

Fisseha and Davies, (1981) Additional evidence concern to international arena of the relative importance of working capital during the early stages of a firm's existence can be found in the responses of entrepreneurs to what they perceived their most pressing current constraints to be." For instance, in Jamaica, over 90 percent of the micro enterprise's financial difficulties were reported to be related to working capital shortages.

Velsamy, (1998) has classified the Small Scale Industries based on the nature of business and presented the various problems of SSIs concerned to the particular type of business. He found that majority of the SSIs are facing the financial problem irrespective of the nature of the business.

Dias Syrian (1991) examines the scale, nature and effects of current sub contracting linkages between small and large Industries in Sri-Lanka. In general weaker relationships exist between large and small industries, however strong links exhibit with respect to more organized few larger firms. The reason for this weaker relationship is the immaturity of small Industries in meeting the requirements of large Industries in terms of technology, production cost, and quality and delivery services.

Roy Roth Well and ‘Water Zegveld (1982) reveal that SME have been and in general, continue to be, technologically innovative. Technology based new SMEs plays an important part in the emergence of new technology and in economic growth SME, particularly, young technology based SMEs also make an exceptional contribution to employment creation., and their larger counterparts, does represent an important vehicle for regional regeneration.

Sandesara (1988) describes the Institutional framework for the small and medium Industries in India. The impact of assistance on firms in this sector and the working of these institutions are also analyzed. He argues for a fresh approach to the institutional set-up and policy framework for this sector.

The seminar conducted by the Reserve Bank of India (1959) on financing the small-scale Industries in India went deep into the problems of small-scale Industries, the Institutional set-up, role of government in assisting small-scale industries, resources of credit institutions and miscellaneous issues.

Narayanan (1964) in his thesis discusses the financial problems faced by Industries in general and recommends the setting up of an Industrial development Bank at the state level for mitigating the problems.

Ram Vepa (1983) in his study reports that over the last 25 years a network of institutions and policies has been developed in the country but not all of them have been success. But taken in totality, they have provided a well-organized frame works in which the small and cottage industry have been allowed to grow.

S.Ravi Prakash Singaravelu (1982) pinpoints the need to establish national level institutions or institutions at state level to finance tiny units, which come within the scope of small-scale sector. He also states that the loan should be project based, not security based.

VII. STATEMENT OF THE PROBLEM

Nations economy and the development of economy is concentrated on the development of MSME sector, in India large scale industries are having many avenues of financial assistance than MSMEs comparatively. Every second MSMEs are affirming financial resources availability. In order to promote the economy promotion of MSMEs sector is very important. Hence, to address financial problems of MSMEs KSFC has emerged as a leading financial institution in Karnataka State.

VIII. OBJECTIVE OF THE STUDY

- To study the financial assistance offered by KSFC to MSMEs.
- to study size wise sanctions of KSFC to MSMEs

IX. SCOPE OF STUDY AND DATA COLLECTION

The present study mainly focused on KSFC and the facts and figures analyzed based on the information gathered from the KSFC. Data has been collected for past a decade.
X. DATA ANALYSIS

**Table No.1**

Gross sanctions by KSFC and number of benefitted enterprises from 2003-04 to 2013-2014 (Rs. In crores)

<table>
<thead>
<tr>
<th>Years</th>
<th>Number of units</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003-2004</td>
<td>1,509</td>
<td>302.77</td>
</tr>
<tr>
<td>2004-2005</td>
<td>1,644</td>
<td>247.87</td>
</tr>
<tr>
<td>2005-2006</td>
<td>1,610</td>
<td>316.20</td>
</tr>
<tr>
<td>2006-2007</td>
<td>1,356</td>
<td>434.53</td>
</tr>
<tr>
<td>2007-2008</td>
<td>1,185</td>
<td>368.15</td>
</tr>
<tr>
<td>2008-2009</td>
<td>1,420</td>
<td>565.24</td>
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<td>2012-2013</td>
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<td>2013-2014</td>
<td>1,430</td>
<td>909.26</td>
</tr>
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Source: KSFC

**Interpretation:** The above table depicts the gross sanctions by KSFC and number of benefitted enterprises. It shows progressive growth in gross sanctions except in the year 2004-05. The gross sanctions were Rs. 242.87 but in the previous year 2003-04 it was Rs. 302.77. In the year 2005-06 it was Rs. 316.20 crores to 1,161 units during 2005-06, in 2006-07 Rs. 424.53 crores to 1,326 units, Rs. 368.15 crores to 1,195 enterprises in the year 2007-08 & it increased to Rs. 565.24 crores to 1,420 enterprises in 2008-09. Again it increased to Rs. 631.49 crores to 1,461 enterprises in 2009-10, and in 2010-11 it increased to Rs. 731.63 crores to 1,537 enterprises, and it increased to Rs. 817.32 crores to 1,485 enterprises in 2011-12. If we look at 2012-2013 gross sanction is 944.06 crore to promote 1,598 enterprises.

**Graph No.1.**

Gross sanctions by KSFC with number of enterprises from 2003-04 to 2013-2014 (Rs. In crores)

**Interpretation:** The above graph shows the gross sanctions by KSFC and number of benefitted enterprises. The growth in gross sanctions is evident from 2003-04 to 2012-13. In 2012-13, the gross sanction was Rs. 944.06 crore to promote 1,598 enterprises.

**Inference:** It can be inferred generally, above graph shows continuous increase in gross amount sanctioned during all the years. KSFC since its inception in 2003-04 has promoted 1,66,726 units with financial assistance of Rs. 12,226.27 crore over the past 54 years. It can be inferred that the gap between amount sanctioned and disbursed is being increased.

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**Table No.2**

Financial Assistance Sanctioned and Disbursed to MSMEs by KSFC from the year 2003-04 to 2013-2014 (Rs. in Crore)

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Financial Assistance Sanctioned and Disbursed to MSMEs by KSFC from the year 2003-04 to 2013-2014 (Rs. in Crore)

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**Inference:** It can be inferred generally, above graph shows continuous increase in gross amount sanctioned during all the years. KSFC since its inception in 2003-04 has promoted 1,66,726 units with financial assistance of Rs. 12,226.27 crore over the past 54 years. It can be inferred that the gap between amount sanctioned and disbursed is being increased.
Interpretation: The above table depicts the total amount of investment sanctioned and number of enterprises promoted by KSFC from 2007-08 to 2012-13 in size wise. Up to Rs 10 lakhs from 2007-08 to 2012-13 total 1,381 enterprises promoted with an amount of Rs.108.77 crore. Above 10 lakhs to 45 lakhs total 3,613 enterprises promoted with an amount of Rs. 730.65 crore. Above 45 lakhs to 150 lakhs total 2,766 enterprises promoted with an amount of Rs.1343.83 crore. Above 150 lakhs to 300 lakhs total 582 enterprises promoted with an amount of Rs. 724.16 crore. Above 300 lakhs to 500 lakhs total 225 enterprises promoted with an amount of Rs. 586.77 crore. Above Rs 500 lakhs total 129 enterprises promoted with an amount of Rs. 563.71 Crore.

Inference: It can be inferred generally, above graph shows size wise sanctions by KSFC from 2007-08 to 2012-13. it can be seen that the KSFC has been sanctioned loans between the range 10 to 45 lakhs to more number of enterprises. In the year 2012-13 it had sanctioned loans between the range 45 to 150 lakhs to more number of units and also it has been sanctioning loans to MSMEs upto 10 lakhs consistently with slight variations.

XI. CONCLUSION

Harmony of the entrepreneurial operations is in the hands of financial institutions, economy is connected with the industrial production, higher the production in industrial arena stimulates the economy, KSFC is doing admirable job being lending its helping hand to fulfill the financial needs of MSMEs.

The corporation has been established with the basic objectives of promoting industrial development in Karnataka. KSFC is playing a pivotal role as an incubator, consultant agency, nodal agency, I promoting new and existing business entities.

KSFC has to undertake a research on identifying less privileged business entities which are involving in manufacturing, trading and servicing. By identifying them KSFC has to lend more on those entities to promote them and it has to liberalize it lending policy for less privileged enterprises.

The MSME sector is the engine of the economy in high-income countries. So India as a developing country has to undertake more and more initiatives to support the growth and contribution of MSME sector.

REFERENCES