Economic development is the process of increasing the degree of utilisation and improving the productivity of the available resources of a country which leads to an increase of the economic welfare. It is well recognised that the financial sector plays a decisive role in the development process of a country.

The financial institutions mobilise small savings from the public and channelise them for investment and productive purposes. A growing economy needs the support of a good financial structure which is responsive to the needs of development. Thus they have a considerable role in the moulding of a welfare economy.

There has been tremendous growth in banking and non-banking structure after independence. Since nationalisation of banks in 1969, remarkable changes have been experiencing in the financial structure. There has been growth of various kind of financial intermediaries such as financial companies, insurance companies, banking companies and other NBFCs. In recent times NBFCs have emerged as substantial contributors to the Indian economic growth by supplementing the effects of banks and development of
other financial institutions. They play a key role in the direction of savings and investment.

As in other parts of the country, both formal and informal financial institutions co-exist in Kerala. Banks, NBFCs, Co-operatives, informal agencies like chit funds and money lenders etc. constitute the Kerala financial system. Those institutions have much relevance since they are mobilising small savings and other resources and channelising them for Kerala's economic development.

Kerala State Financial Enterprises Ltd. is one of the NBFCs in Kerala. It is the only financial institution in the public sector doing chitty business. It has been functioning in Kerala since 1969. No previous study has been conducted on evaluating the role of KSFE Ltd. in the economic development of Kerala with special reference to Malabar region. This study attempts to analyse the service of KSFE to Malabar people in mobilising funds through chitties and other businesses.

The specific objectives of the study are:

(1) To expose the present economic condition of people in Kerala.

(2) To show the role of banks and other financial institutions in the financial structure of Kerala.
To exhibit a general picture of KSFE Ltd. and to know its contribution to Kerala economy.

To evaluate the performance of KSFE Ltd. in the Malabar Region and to know its contribution to the economic prosperity of Malabar people; and

To make suggestions, if any, for improving and restructuring KSFE Ltd.

The study has been designed as a descriptive one based on survey method. Both primary and secondary data have been used for this purpose. The secondary data have been collected from various reports, audited financial statements, records, publications, journals, books, etc.

For primary data collection 2 sample groups, one from customers and other from managers were selected. A structured interview schedule was administered and personal interview method was followed to collect information. For statistical analysis of the data mathematical and statistical tools like ratios, percentages, averages, normal proportion test and $\chi^2$ test have been used. On the basis of such analysis the role of KSFE Ltd. in the economic development of Kerala with special reference to Malabar region is assessed.

The whole study is presented in 6 chapters:
Chapter I is the introduction part stating the scope, objectives, hypotheses, methodology, sample design, tools used, limitations of the study and brief review of literature.

Chapter II shows the picture of the present economic status of Kerala.

Chapter III discusses the role of banks and other financial institutions in the mobilisation of resources in Kerala.

Chapter IV explains the services and functions of KSFE Ltd. including its problems.

Chapter V analyses the role of KSFE in the economic development of Kerala with special reference to Malabar region.

Chapter VI, the last chapter, summarises the whole study, lists the findings and offers a few suggestions.

A wide range of literature is made available on various topics related to banks and other financial institutions. But no authentic study has been carried out so far evaluating the performance of KSFE, which is a unique financial institution in Kerala doing chitty business. A number of private chits and money lenders are working in Kerala with a wide range of customers. But being a public enterprise, KSFE regulates the functioning of those well-established concerns by giving financial security to its customers.
The study exposes the present economic conditions of Kerala. The household sector is the largest contributor of Kerala’s domestic savings. There is a decreasing trend in the case of agricultural income to the Kerala economy. The percentage contribution of agricultural income to the total of state income was 21.45 per cent in the year 1999-00 and decreased to 13 per cent in the year 2003-04. Although the industries sector has shown progress during the study period the gross capital formation from the sector decreased by 39.72 per cent. The total value of output from industrial sector increased by 28 per cent.

The per capita income of Kerala at current prices increased from Rs.19803 in 2001-02 to Rs.24053 in the year 2003-04. Kerala ranked first among the states in education in the year 2004.

The literacy rate of Kerala was 90.9 per cent. Among males the literacy rate was 94.2 per cent and among females 87.86 per cent. Kerala ranks third among states in population Below Poverty Line.

Kerala occupies the fourth position in social and economic index.

The total employment in private sector on 31.03.04 was 589608 and in public sector 614815.

The revenue receipts of Kerala was Rs.7941.75 crores in the year 1999-00 and increased to Rs.11815.37 crores in the year 2003-04. The
revenue expenditure was Rs.11565.96 crores in the year 1999-00 and increased to Rs.15495.67 crores in 2003-04. The per capita debt increased from Rs.6285 in 2000 to Rs.11736 in the year 2003-04.

Commercial banks and other financial institutions play a significant role in resource mobilisation. The study examined the role of commercial banks and other financial institutions in the financial structure of Kerala economy. Annual growth rate of domestic deposit of commercial banks increased from 9.3 per cent in the year 2000 to 16.8 per cent in the year 2004. But the NRE deposit decreased from 40.5 per cent in 2000 to 4.89 per cent in 2004. The annual growth rate of advances increased from 17.4 per cent in the year 2000 to 18 percent in 2004. The CD ratio was 48.31 per cent in the year 2004.

The deposit of State Bank of India as on December 2002 was Rs.610924 lakhs and increased to Rs.703105 lakhs as on December 2004. The deposit of State Bank of Travancore as on December 2002 was Rs.1219578 lakhs and increased to Rs.1480908 lakhs on December 2004. This shows an increase of 21.43 per cent.

The total amount of advances and deposits of Federal Bank as on December 2004 was Rs.405579 lakhs and Rs.769730 lakhs respectively.

The CD ratio of North Malabar Gramin Bank as on 31.03.04 was 88.33 per cent and that of South Malabar Gramin Bank was 100.50 per cent.
The total number of industrial units assisted by KSIDC, a non-banking financial institution, as on 31.03.2003 was 31 in the public sector and 431 in the private sector.

Kerala Financial Corporation, another non-banking finance company disbursed Rs.11231 lakhs, Rs.11902 lakhs and Rs.8548 lakhs in the year 2002-03, 2003-04 and 2004-05 respectively. During the year 2004-05 the KTDFC (Kerala Transport Development Finance Corporation) had sanctioned Rs.695.49 lakhs as loan to industrialists.

The total number of money-lending institutions in 2003-04 was 5696 and population covered by them was 5590. Among the districts Alappuzha accounts for 17.13 per cent having 976 money-lending institutions.

The number of registered working chit funds in 2002-03 was 45398 and the amount mobilised by them was Rs.360.32 crores.

The study examined the profile of KSFE. It was started in 1969 by the Government of Kerala to regulate the chit business which was then totally controlled by private money-lenders and financiers. The people were fully exploited by those private lenders and financiers.

KSFE has 252 branch offices in Kerala and employs 3200 people directly and 2000 people indirectly. Its head office is at Trichur. This study
attempts to evaluate the performance of KSFE and tries to know to what extent Malabar people are benefited with the services of it.

The total business of the company for the year 2003-04 was Rs.3623 crores and the total amount of deposit was Rs.1370.81 crores. It has been consistently maintaining a CD ratio of 80 percent and advancing all such funds in Kerala only.

The profit of the company for the year 1999-00 was Rs.793.15 lakhs and increased by 6 times and reached Rs.4209.19 lakhs in the year 2003-04.

The turnover of the company for the year 1999-2000 was Rs.1486.72 crores and reached Rs.2162.73 crores in the year 2003-04 showing an increase of 45.49 per cent. The FD of the company for the year 1999-00 was Rs.671.33 crores and increased to Rs.1238.34 crores, which shows an increase of 84.46 per cent.

The total amount paid to the state government for the year 1999-00 was Rs.1695 lakhs and increased to Rs.2238 lakhs in the year 2003-04 which shows an increase of 32.04 per cent.

The total amount of direct benefits to the government from KSFE for the year 03-04 was Rs.2770.66 lakhs. This was Rs.1628.78 lakhs in the year 1999-00, an increase of 70.15 per cent. This include the guarantee commission, registration and filing fee, etc. The total amount of indirect
benefit for 03-04 was Rs.71244.68 lakhs which includes chitty security deposit, SB deposits and other deposits.

The chitty security deposit was Rs.11856.33 lakhs in the year 1999-00 and reached Rs.20261.63 lakhs in the year 2003-04. This shows an increase of 70.89 per cent. The amount of SB deposit was Rs.795.98 lakhs in 1999-00 but decreased to Rs.397.16 lakhs in the year 2003-04. There was a decrease of 50 per cent.

The total sala of the chitty business for the year 1999-00 was Rs.9568.74 lakhs and increased to Rs.13971.58 lakhs in the year 2003-04, an increase of 46.20 per cent. The total number of subscribers for the year 1999-00 was 598449 and increased to 770549 which shows an increase of 28.76 per cent.

The Gold loan advanced by the company for the year 1999-00 was Rs.963.35 lakhs and increased enormously and reached Rs.16343.96 lakhs in the year 2003-04.

Out of the total respondents to the survey 75.55 per cent are males and 24.45 per cent are females. With regard to religion 56.89 per cent are Hindus, 30.98 per cent Muslims and 12.13 per cent Christians.

The study further revealed that 12.46 per cent of the respondents do not have S.S.L.C. qualification, 24.94 per cent have SSLC, 23.8 per cent
have plus two qualification, 23 percent have Degree, 11.45 per cent have PG and 4.35 per cent have professional qualification. With regard to occupation, 2.31 per cent of the respondents are agriculturists, 1.09 per cent are doing agricultural service and 3.11 percent are artisans. 35.60 per cent of the KSFE customers are government employees. 14.68 per cent are self employed, 14.99 per cent are private sector employees, 11.12 per cent are businessmen 1.2 per cent are industrialists and 3.87 per cent are professionals.

With respect to annual income 24.86 per cent are in the income group of below Rs.50,000, 54.49 per cent between Rs.50,000 to Rs.1,00,000, 9.85 per cent between Rs.1,00,000 to Rs.150,000 and 10.8 per cent above Rs.1,50,000.

It is revealed that 92.50 per cent of the respondents have own houses of which 96.84 per cent are electrified 59.13 per cent are having concrete houses and 36.16 per cent are having tiled houses.

With regard to the use of home appliances it is found that 75.28 per cent of the respondents are using TV and 51.35 per cent are using fridge 39.54 per cent are using washing machine, and 58.04 per cent are using cooking gas. It is also observed that 20.70 per cent of the respondents have public water connection, 52.61 per cent have telephone/mobile phone connection and 14.71 per cent have computer/internet connection. It is
revealed that 31.53 per cent are using motor vehicles. It is also revealed that 80.79 per cent owned land and 79.24 per cent owned building.

From the study it is revealed that 91.95 per cent of the customers of KSFE Ltd. are not depending on private moneylenders or private chits. 58.51 per cent of the respondents are of the opinion that dependence on private moneylenders is not needed.

With regard to the customership in KSFE, it is found that 31.42 per cent of the customers are having customership for 10.20 years and 57.24 per cent are having customership of below 10 years. It is also revealed that 51.75 per cent are depositors, 15.99 per cent are borrowers and 32.26 per cent are depositors-cum-borrowers. Out of the depositors 46.62 per cent are chitty subscribers, 22.70 per cent are Sugama depositors and 8.13 per cent are fixed depositors.

It is also found that out of the borrowers 23.1 per cent availed gold loans, 20.03 per cent availed chitty loan and 12.36 per cent availed Reliable customer loan.

It is revealed that 73.29 per cent of the respondents deal with KSFE to deposit their savings. 48.21 per cent of he respondents opined that the interest rate of KSFE is average. 71.60 per cent of the customers have given personal sureties as security for different loans. It is clear that 88.21 per cent of he respondents are repaying their loans regularity.
Regarding reasons for default in repayment it is found that 20 per cent are wilful defaulters and 21.66 percent are defaulters due to high rate of interest. 22.33 per cent opined that the repayment of instalment is not easy.

In the case of money-transfer business 35 per cent respondents are not satisfied with the services of KSFE Ltd.

It is also observed that 84.31 per cent do not feel any difficulty in dealing with KSFE. But 7.2 per cent feel difficulty in their dealing with KSFE. 47.12 per cent of them are of the opinion that there is difficulty in getting sureties. 15.34 per cent of them opined that their difficulty is due to the indifferent behaviour of the staff. The difficulties of 17.82 per cent is due to the delay in receiving cash.

It is revealed by the managers that the awareness of people about various scheme of KSFE is good.

**Economic Improvement to Respondents**

With regard to economic improvement to respondents it is observed that 76.5 per cent are economically improved. 16.39 per cent are of the opinion that there is improvement in their village also. Only 5.85 per cent respondents opined that there is no economic improvement to them from their dealings with KSFE.
Other major findings are:

1. Majority of the KSFE branches are located in urban or semi-urban area. So rural people have only limited access to KSFE branches.

2. KSFE has no extension counters in towns or villages which are convenient to KSFE customers especially customers from villages.

3. KSFE has only very limited evening branches in operation.

4. KSFE has no collection agents which is an easy method to locate defaulters.

5. The agents of KSFE are limited in number and are inactive due to unattractive remuneration.

6. KSFE Branches are not computerised. This results delay in processing transactions.

7. Branch managers have only limited powers and they have to depend on Head Office even for settling certain minute problems.

8. It has no branches outside Kerala.

9. A good portion of the KSFE employees are working on contract basis. As a result there exists 2 types of pay structures.

10. Market price is not considered for the valuation of property which is given as security for advances to customers.
Conclusion

From the above findings it can be concluded that KSFE Ltd. is doing much service for the economic and human development of individuals and thus for the economic improvement of Kerala especially in the Malab region. Since the main business of KSFE is chitty it must be redesigned to attract people from all walks of life.

Results of Hypotheses testing

On the above findings, the hypotheses set for the study have been tested and the results are as follow:

The first hypothesis that the KSFE has a significant role in the economic development of Kerala is found true and hence accepted.

The second hypothesis that more than 50 per cent of the customers of the KSFE are salaried people is found true and hence accepted.

The third hypothesis that KSFE customers are not having customership in private chits or private financiers is also found true and accepted.

The fourth hypothesis that KSFE mobilises resources mainly from chitty business is found true and accepted.
Thus, it is clear that the KSFE is doing much for the economic
development of the people of Keala. For rendering still, better service, the
following suggestions are put forward.

Suggestions

- It should give more concentration in providing service to rural people.
  For this purpose branches in rural area may be opened and all types of
  its business should be started. Special camps should be conducted in
  the rural area giving awareness about the different products of the
  company. In order to have the customership of more low income
  group people, mini and tiny term personal loan should be given to
  them. Chitties of very small denominations with attractive sala may
  also be started. All these will help the rural people to get more out of
  KSFE.

- Branches may be started in each and every village and panjayaths so
  that ordinary people can have access to the branches. Branch
  extension counters should be started in different parts of town, cities
  and villages.

- Morning branches and Evening branches be started in almost all parts
  of its service area.
Collection agents should be appointed in all parts of the service area so that chitty installments and loan repayment instalments can be easily collected. So the number of defaulters can be minimised.

The number of agents per branch office should be increased and area wise agents should be appointed to canvass business. Agents should be given commission on the basis of their role in canvassing business.

Computerization of each and every branch office should be compulsorily made so that all types of unnecessary formalities and procedural bottlenecks can be minimised. Thus defaulters and malpractioners can be located easily.

KSFE should start branch offices outside Kerala especially in the metropolitan cities where more Keralities are residing.

Major portion of the KSFE staff are working on contract basis. Their pay structure is also different. They should be given permanent appointment and equal salary so that their work morale will not be negatively affected.

No social security scheme are started till now. Insurance schemes and pension scheme should be started.
• The valuation of secured property for different loan purposes is not based on the average market price. On the basis of the locality minimum rate for land and property can be given after considering the market fluctuations. Property once secured for a loan should be further considered for another loan, provided it has got required value.

• The terms and conditions of customer vehicle loan should be relaxed so that more people can avail the benefit of the scheme.

• More publicity should be given about KSFE and its schemes through media and giving emphasis on social activities like construction of waiting sheds, well for drinking water, adoption of brilliant student for higher education, sponsoring of games and tournaments, etc.

Most of the suggestion require long term study and permission from state and central governments and from the RBI for its implementation. However, a few of them may be implemented without financial burden.

The present study highlights the role of KSFE Ltd. in the economic development of Kerala. Such a study has not been made so far. It is rather an exploratory peep. There is ample scope for further research on various, aspects of KSFE Ltd. like economic improvement through Chit business,
Hire Purchase Scheme, Employment oriented Hire Purchase Scheme, Reliable Customer Loan, Customer Vehicle Loan, etc. However, the present functioning of KSFE Ltd. is good and it is doing much for the economic prosperity of Kerala. It contributes an enormous amount to the state exchequer year after year. If the government gives still more support to the KSFE Ltd. it can, certainly, contribute further to the benefit of Kerala economy in the ensuing years.