INTRODUCTION

Janey Davy “Role of financial institutions in the industrialisation of Kerala” Thesis. Department of Commerce and Management Studies, University of Calicut, 2004
CHAPTER I
INTRODUCTION

Today economic growth is everybody’s concern and in such a milieu, growth theory has received particular attention of economists. Economic growth has been defined by Arthur Lewis\(^1\) as transforming a country from a five percent saver to a fifteen percent saver and with equal justice transforming a country from eighty percent farmer to fifteen percent farmer. That means the rest of the population should be engaged in manufacturing, construction, services, etc.

Jawaharlal Nehru, our first prime minister has revealed the fact that only industrialisation would raise the standards of the people substantially and poverty is combated.\(^2\) Samuel Lurie\(^3\) and G. Myrdal\(^4\) also have brought out the significance of industrialisation in developing an economy. This provides the ground for increasing the base of industries. And transforming the country from agricultural to non-agricultural activities has been the essential part of the development process.

As Harry G. Johnson\(^5\) observes industrialisation involves the organisation of production through specialisation and division of labour based on the application of technology and replacement of human effort, motivated by the objective of minimising cost per unit and maximising return to the enterprises. Thus industrialisation results in the replacement of crude manpower and even human intelligence by machines.
It is now widely accepted that without industrialisation no country can progress. The success of industrialisation is reckoned from the share of value added from manufacturing sector in total Gross Domestic Product (GDP) of the country. According to Ratnakar Gedam, if the share of manufacturing in GDP exceeds 20 percent, then, such a country is reckoned as industrialised. The following Table 1.1 reveals the contribution of industries towards the GDP of India and Kerala. The contribution of manufacturing sector towards GDP at All-India level concentrates around 15 percent. As it is not up to 20 percent, India cannot be reckoned as industrialised. When the secondary sector as a whole is considered this contribution is more than 20 percent.

Table 1.1

<table>
<thead>
<tr>
<th>Year</th>
<th>Contribution of Manufacturing Sector (in Percentage) towards GDP</th>
<th>Contribution of Secondary sector (in Percentage) towards GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>All-India</td>
<td>Kerala</td>
</tr>
<tr>
<td>1998-99</td>
<td>15.6</td>
<td>11.5</td>
</tr>
<tr>
<td>1999-2000</td>
<td>15.4</td>
<td>11.2</td>
</tr>
<tr>
<td>2000-01</td>
<td>15.7</td>
<td>11.0</td>
</tr>
<tr>
<td>2001-02</td>
<td>15.3</td>
<td>11.3</td>
</tr>
</tbody>
</table>

Source: Government of Kerala, State Planning Board, Thiruvananthapuram Economic Review (Various Years).

When the position of Kerala is analysed it can be seen that the contribution of the manufacturing sector is very low (around 11 percent only) when compared with the position of India (15 percent). Again, if the secondary
sector as a whole is considered the position is better. However, it can be concluded that Kerala is industrially backward when compared with the All-India figures.

One of the major weaknesses of the industrial sector of Kerala is the lack of investments. The state of Kerala could not benefit much from the liberalisation policies followed by the Government of India. Very low level of investment made in the industrial sector is an evidence of this. During the period from August 1991 to January 2002, the number of proposals, amount involved, proposed employment and amount of Foreign Direct Investment approved for different states is given in Table 1.2

Table 1.2
Industrial Investment Proposals and Foreign Direct Investment in India of Southern States during the Period from August 1991 to January 2002.

<table>
<thead>
<tr>
<th>States</th>
<th>IEM+LOI</th>
<th>Proposed Investment</th>
<th>Proposed Employment</th>
<th>Amount of FDI Approved</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number</td>
<td>% share</td>
<td>Rs. Crore</td>
<td>% share</td>
</tr>
<tr>
<td>Kerala</td>
<td>513</td>
<td>1.1</td>
<td>10509</td>
<td>1.0</td>
</tr>
<tr>
<td>Tamil Nadu</td>
<td>4569</td>
<td>9.5</td>
<td>67840</td>
<td>6.4</td>
</tr>
<tr>
<td>Karnataka</td>
<td>1929</td>
<td>4.0</td>
<td>53610</td>
<td>5.1</td>
</tr>
<tr>
<td>Andhra Pradesh</td>
<td>3321</td>
<td>6.9</td>
<td>116504</td>
<td>10.9</td>
</tr>
</tbody>
</table>

During the period from August 1991 to January 2002 the share of Kerala in the total Industrial Entrepreneur Memorandum (IEM) and Letter of Intents (LOI) was only 1.1 percent, the share of proposed investment was only 1 percent, the proposed employment was only 1 percent and the amount of FDI approved was only 0.6 percent of the total for India. From Table 1.2 it is clear that Kerala stands nowhere near other southern states. The proportion of central sector investment in Kerala is very low. The state government concentrates and invests more in the infrastructure development.

The only alternative is to encourage private capital initiative to this sector. The financial institutions have to play a greater role in this region.

Industrial development hinges on the ease with which finance is raised for acquiring land and building, plant and machinery and other fixed assets and for purchasing raw materials from farms and mines and the speed with which money is advanced to take finished products to penetrate the market. The need of financial institutions cannot be over emphasized on the ground that they transfer savings from the slow growing sectors to the fast growing sectors, spread the risks and uncertainties by investing money after calculating costs and benefits, mobilise the savings and convert the financial assets of the people into financial debt. The term financial institutions applicable to the industrial sector of India include banking and non-banking financial institutions. The services and schemes offered by these two types of institutions differ to some extent; still they are welcomed by the entrepreneurs since some are complementary in nature.
The industries of Kerala enjoy the assistance and services of both banking and non-banking Financial Institutions. They avail of the assistance from All-India Financial Institutions (AIFI) like Industrial Development Bank of India (IDBI), Industrial Finance Corporation of India Ltd. (IFCI), The Industrial Credit and Investment Corporation of India Ltd. (ICICI), Small Industries Development Bank of India (SIDBI) and National Bank for Reconstruction and Development (NABARD). Two state-level institutions, viz., Kerala Financial Corporation (KFC) and Kerala State Industrial Development Corporation Limited (KSIDC) help our industries. Besides these institutions, we have a network of branches of State Bank of India and its subsidiaries, nationalised banks, private sector banks, foreign banks, regional rural banks and co-operative banks.

The financial institutions play a vital role in the process of industrial development. It lubricates the engine of growth by mobilising savings and extending credit for productive investment. However, in academic literature it has been debated whether financial development precedes industrial development or whether it merely adjusts to the growth of the sector. In developed countries market forces help to evolve financial institutions and instruments which means industrial development or economic development precedes financial development. But in the case of developing economies they have to make deliberate efforts to promote and nurture institutions. India is no exception. Thus when the State and Central Governments’ direct investments in industries are limited or insignificant, financial institutions have to play a vital role in industrialisation of the State. Here it is necessary to analyse the role of financial institutions in the industrial development.
Importance of the Study

The State of Kerala with 1.2 percent of the total geographical area of the country accommodates 3.1 percent of its population. This situation creates many social problems. The serious unemployment problem of the educated youth is one of them. The agricultural sector in the State is almost saturated and measures to increase the productivity of crops will generate only a few additional jobs. The expanding social service sector offers some hope in this regard but such expansion is crucially linked to industrial development. In short, a lasting solution to the problem of unemployment which paves the way for much of the social unrest is possible only through rapid industrialisation. The developmental experience of Kerala has received world-wide attention because of the co-existence of high standard of living with low per capita income. In 2001, Kerala ranked first among the major states in India in terms of Human Development Index though the State stood only ninth in terms of per capita Net State Domestic Product (NSDP). A significant aspect of ‘Kerala’s Model’ is that even without having high per-capita income, industrialisation and urbanisation, the state has reached the third stage of demographic transition and people get better medical care and education. At the same time the state has become low growth, high cost, low productivity, low investment and low employment economy. It is felt that the State cannot continue to have high level of social consumption with slow growth of the economy, particularly in sectors like agriculture and industry and deteriorating financial health. While the Indian economy has already completed one decade of reforms, only very recently the State has initiated economic reform measures. The industrial economy, perhaps the darkest aspect of Kerala economy, faces
problems like lopsided structure, low level of investment and poor performance of State Public Sector Undertakings continues. In the financial sector, the problem continues to the low level of credit deployment by commercial banks and other financial institutions. If the industries are rejuvenated with the idle resources of the State’s financial institutions a good number of educated youth who flee to other countries for jobs could have been accommodated in the State itself. Hence this study may prove to be useful and timely. The study is not merely an analysis of the overall growth and their quantitative performance but also of their qualitative performance. This study seeks the attention of the Government, researchers, the beneficiaries, i.e. the public and finally the most important group, i.e., the officials of these financial institutions.

Statement of the Problem

The people of Kerala look upon the rapid industrialisation of Kerala as a lasting solution to the problem of unemployment which paves the way for much of the social unrest. But the position of Kerala in the industrial map of India is almost insignificant. Table 1.1 reveals that the contribution of the manufacturing sector and the secondary sector as a whole towards GDP are comparatively less. One of the major weaknesses of the industrial sector of Kerala is the lack of investments. The investments of the Central Government and State Government are less in this direction. Therefore financial institutions have to play a greater role in the industrialisation of Kerala. In this study, it is proposed to analyse the role of these financial institutions in the industrialisation of Kerala.
Objectives

When the units assisted by the agencies perform well, that itself is an indication that the agencies have a role to play. It is not the number of institutions assisted but the number of units performed reasonably well among the assisted units, that is more important to be considered in evaluating the role of financial institutions. This study is to determine the role played by the financial institutions in the industrialisation of Kerala. Specific objectives are set up which are as follows.

1. To study the growth of advances year-wise and institution-wise over a period of years.
2. To study the performance of units assisted by KFC, KSIDC and commercial banks.
3. To assess the role of these institutions based on these performances.
4. To assess the inter-institutional, inter-district, inter-product variations in industrial finance.
5. To study the major problems faced by the industrial units of Kerala.
6. To make suitable suggestions and recommendations on the basis of the findings of the study.

Hypotheses

On the basis of the above objectives the following hypotheses have been formulated and tested.

H₁: Financial institutions to be effective should be more customer friendly.

H₂: Judged by the performance of units aided, the State sponsored agencies have a positive role in industrialisation of Kerala.
Various sub-hypotheses have been formulated which are as follows:

a) KFC aided units perform better than banks aided units.

b) KSIDC aided units perform better than banks aided units.

c) KFC aided units perform better than KSIDC aided units.

d) There is no significant difference in the performance of the selected units district-wise.

e) There is no significant difference in the performance of the selected units product-wise.

Methodology

The study has been designed as an empirical one based on survey method. Data have been collected from both secondary and primary sources.

Secondary Data

Secondary data have been collected from the following sources.

1. Annual Reports of KFC and KSIDC for different years.

2. Statistical statements of State Level Bankers' Committee (SLBC).


4. Plan documents of the government

5. Economic review prepared by State Planning Board, Thiruvananthapuram.


7. Academic studies conducted in related fields in different universities.

8. Books and journals dealing with the subject.
Primary Data

Primary data required for the study have been collected from the borrower units using multi stage stratified sampling techniques. A good deal of special information on financial institutions has been collected through direct personal interviews with the topmost authorities of KFC, KSIDC and commercial banks. Discussions were also held with experts and scholars in the area.

Sampling Design

Multi-stage stratified sampling was adopted. The districts of Kerala have been divided into four categories on the basis of KFC classification which is on the basis of the degree of industrialisation achieved. Category A comprises the no-industry or very backward districts of Idukki and Wynad. Category B comprises the backward districts of Alappuzha, Malappuram, Kannur, and Kasargode. Category C consists of the less developed districts of Thiruvananthapuram and Thrissur. Category D includes the non-backward districts of Pathanamthitta, Kollam, Kottayam, Ernakulam, Palakkad and Kozhikode. From each category one district was selected at random. Thus, from category A Idukki, from category B Alappuzha, from Category C Thrissur and from category D Ernakulam emerged as samples.

In the second stage, lists of units assisted during 1996-97 was collected personally from the KFC branches and bank branches of the four selected districts and a list of units assisted by KSIDC was obtained from its Kochi
branch. For each district 8 units assisted by KFC and 8 units assisted by bank branches were selected at random. During 1996-97 KSIDC has financed in total 17 units from these four districts together. These units include one from Idukki, one from Alappuzha, 3 from Thrissur and 12 from Ernakulam. All units from Idukki, Alappuzha and Thrissur and 7 units at random from Ernakulam were selected. Thus the sample consists of 76 units.

Data Collection Tools

Primary data have been collected with the help of a structured interview schedule. The schedule was served on a few units of Thrissur district in June 2001. After a month of time, suggestions were gathered through the pilot study and discussions were held with industrialists and the authorities of the three institutions. The schedule was given its final shape (Appendix-1) then and it was administered on the selected 76 sample units.

Tools of Analysis

Analysis has been done by using techniques such as percentages, averages, accounting ratios and Z-score test.

Scope of the Study

The growth of the developing economies is very often constrained by the scarcity of certain crucial resources. Of these, one of the most vital is capital. It is very important to see that the industries get enough of working and fixed capital in time. Besides the Central and State Government assistance, the industries of Kerala get financial help from the All India Financial Institutions
(AIFIs) at the national level, Kerala Financial Corporation (KFC) and Kerala State Industrial Development Corporation Limited (KSIDC) both at the State level and a network of commercial banks. The help obtained from the major AIFIs as on 31st March 2001 is only 1.1 percent. Therefore the study is limited to the two State level institutions, viz., KFC and KSIDC and commercial banks.

**Period of the Study**

The study covers a period of five years from 1996-97 to 2000-01. The survey was conducted during the year 2001-02. Secondary data were collected for a period of eleven years, i.e., from 1991-92 to 2001-02. Wherever found necessary, data relating to prior periods were also considered.

**Limitations of the Study**

The study suffers from certain limitations. Some of the respondents have been reluctant to reveal all the information required as per the schedule, despite the assurance given that the data would be kept confidential. Some of the small industrialists are not having the habit of maintaining proper accounts and so they found it difficult to answer the schedule. Hence, care has been taken to see that the data collected are not biased as far as possible. Every effort has been made to collect accurate data from the respondents.

Since the sample units selected were 76 from the Kerala State, the conclusions may be applicable to the Kerala situations and generalisation of conclusions may not be possible.
REVIEW OF LITERATURE

A large number of studies have been conducted in the field of industrialisation of India and Kerala. Many aspects of the industries were studied including the financial aspects.

These studies are divided into two parts. Part A deals with studies related to parts other than Kerala and includes the studies pertaining to the financial aspect only of Indian Industrialisation. Part B deals with studies on Kerala industrialisation.

Part A

Inadequate capital is often referred to as the main obstacle to the growth of entrepreneurs James T Mccroy (1956) confirms this argument.

Emphasizing the importance of small scale industries in the economic development of India, Basu (1957) deals at length with the financial problems and the functions of the SFCs in helping them.

The Seminar conducted by the RBI (1959) on “Financing of Small Scale Industries in India” went deep into the problem of SSI, the institutional setup, role of government in assisting small enterprises, resources of credit institutions and miscellaneous issues.

Balakrishna (1961) in his study “Financing of Small Scale Industries in India 1950-52” gives a detailed account of the finances of a sample of 270 small scale units in modern industry in India. The study analysed the finance, operation, profitability etc., of Small Scale Industries in India. He concludes that small scale industries are not financially sound as big industrial units.
Dhar and Lyndall (1961)\(^{11}\) made a notable study of the modern Small Scale Industries. In their assessment of technical and financial assistance attempted by various institutional agencies, they criticise the policy of creation of units for their own sake. They opined that instead of giving protection, measures to remove disabilities of small firms and to give them a fair chance to compete in the market should be pursued.

Ramakrishna (1962)\(^{12}\) brings out the financial needs of small scale industries and examines the financial assistance by State Corporations, banks, lending agencies etc.,

In a study focussing the financial problems of small scale and cottage industries in Uttar Pradesh, Mohammed Sayeed (1963)\(^{13}\) recommends the introduction of Participation Loan Scheme by State Government and the setting up of Small Business Investment Companies.

Lack of capital resources, mainly working capital is proved to be the biggest constraint on the efficiency of the selected sample of household manufacturing units in small towns and villages of Maharashtra by Shetty (1963)\(^{14}\).

Narayanan (1964)\(^{15}\) 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.

Zacharia (1966)\(^{16}\) in his doctoral dissertations identifies a definite and determinant role that industrialisation has in the development strategies of developing countries in general and that of India in particular.
Gupta (1969) explains the impact of institutional finance. The special industrial financing institutions have been sponsored by the government for providing medium and long term financial assistance to industry. They are all of post-independence origin and have acquired such importance that they can be properly described as the corner stone of the modern industrial financing systems in India.

Darby (1970) surveys the wide range of problems encountered by firms of all sizes in manufacturing and service industries in the financing of expansion and suggests practical methods of overcoming these problems.

Ram. K. Vepa (1971) has studied the growth of small scale industries of India and compared it with those of Japan. He stands for credit supplementation system which enables a borrower to obtain credit from other banks on the guarantee of credit.

In his work Suresh Chandra Jain (1971) analyses in detail the problem of institutional finance for small scale industries in the state of Uttar Pradesh.

The National Council of Applied Economics and Research (NCAER) (1972) in their study reveals that the major problems in production are largely those of shortage of raw materials and inadequate finance.

Sharma (1973) in his thesis discusses the role of State Financial Institutions in financing industries of Bihar. He examines the industrial financing by national level financial institutions and recommends the setting up of a Small Industries Bank.
Asit Banerji (1975)\textsuperscript{23} throws considerable light on the processes that have led to the present situation of Indian Industries. The study deals with the malfunctioning of industries especially in the public sector. It investigates the relationship between capital intensity and productivity.

In his doctoral thesis Srinivas (1975)\textsuperscript{24} has brought about how industrialisation led to economic development.

An up to date account of the evolution and present position of development banking in India is presented by Simha(1976)\textsuperscript{25}. He gives a general introduction of the many facets of development banking. He studies the functioning of State Financial Corporations (SFC) as a group and also about Karnataka SFC. He discusses briefly about their state level development agencies and commercial banks.

Sudarshan Lal (1976)\textsuperscript{26} discusses in brief the eligibility of small industries and various categories of small borrowers for grant of credit facilities, types of credit facility, term loans, working capital advances etc., available to them from commercial banks, State Financial Corporations, National Small Industries Corporations and other institutions and also the general terms and conditions governing the grant of such assistance.

Inderjit Singh and Gupta (1977)\textsuperscript{27} try to find out the role played by commercial banks in financing small industries. They also find out the prospects of bank finance in Kashmir in particular. They conclude that the work done by commercial banks is not satisfactory.

In his thesis, Parekh (1978)\textsuperscript{28} reviews the role of financial institutions and State agencies in extending credit to small scale units and pinpoints their
attitude of indifference in catering to the needs of the tiny units. He is of the view that financial institutions have to attune their lending policies in consonance with the needs of the small sector in general.

The role of Government and various institutions in developing and financing small scale industries in Cachar district in particular and the state of Assam in general is examined by Nikhil Bhushan Dey (1981)²⁹.

Sikidar (1982)³⁰ analyses the contribution of Assam Financial Corporation in the industrialisation of the region. He also evaluates its performance, policies, procedures and practices.

Mahajan (1983)³¹ discusses in detail the role of agriculture and industry in development strategy. The diversified growth of large scale industries since 1951, the teething problems of small and tiny industries, the different policies affecting large scale and small industries are discussed in the work.

Natarajan (1983)³² examines the trends in institutional financing to small scale industrial units in Andhra Pradesh for period of one decade commencing from 1970.

In their work, Bidani and Mitra (1984)³³ opines that bank finance is a critical resource for the growth of industry and at the same time it is scarce. Therefore they conclude that it is the duty of every banker to be fully conversant with the procedural aspects of financing and the entrepreneurs to ensure successful implementation of their projects and plans.

Hrishikes Bhattacharya (1984)³⁴ has divided his study into 3 stages – first stage covering the banker's problems due to expansion of business
followed by the second stage where the question of entrepreneurial development is discussed and then the third stage with problems of small scale industries vis-a-vis the banks are discussed with indications to possible solutions.

Bharav H Desai and Ramesh B Darji (1986) makes an attempt to investigate the extent of working capital financing provided by banks in the textile units under National Textiles Corporation, in the context of Tandon and Chore Committee recommendations. They find that the bank financing is below the maximum permissible bank financing limit.

Jain (1986) in his thesis, examines the role of State Financial Corporation (SFC) in industrial finance in India with particular reference to Uttar Pradesh Financial Corporation. He opines that SFCs should pay greater attention towards the financing of tiny units and also in the modernisation and rehabilitation of small units.

Radhe S. Pradhan (1986) in his article studies the financing pattern of working capital in the Indian industry. He finds that trade creditors is the major source of short term financing in Indian industries. Bank lending is the second largest source of finance. Long term financing for working capital is found low in most of the industries.

Agarwal (1987) concludes that Indian banking system has failed to extend appropriate amount of loans to small scale industries. He is of the opinion that lending institutions should be more practical and flexible in their attitude rather than strictly legal with a view to enabling the borrowing units to overcome any temporary difficulties.
An attempt to identify the factors which are associated with the regional disparities in commercial banking in India is made by Chippa (1987). It is a full scale study of the measurement of regional disparity in commercial banking development in India. An important finding of the study is that in a mixed economy like India, where the government policy is capable of influencing various aspects of commercial banking, the regional disparities of banking development may indicate a convergent trend.

Misra (1987) analyses the factors which prompted the entrepreneurs to take industrial activities. He lists internal factors and external factors. Internal factors generate an inclination to adopt entrepreneurial activity while the external factors provide a 'spark' in the lightning of the idea of entrepreneurship. These factors depend upon the nature of entrepreneurs. External factors include financial assistance.

Sudarshan Lal (1987) in his work, “Loans to Industries”, explains that the commercial banks and other credit institutions in the wake of social control, nationalisation of major Indian banks and 20 point programmes have liberalised the conditions for grant of assistance to the small industries and small borrowers.

Bansal (1988) evaluate and assess the efficiency and efficacy of Development Banks in the field of large and medium industries. The financial procedures, policies and operations have been investigated. Ability of these institutions in channelling funds towards large and medium industries has been evaluated empirically. The study reveals that institutions have not been adequately performing their role.
In a study on financing of decentralised sector by State Financial Corporation Gupta (1989) suggests that fresh performance indicators should be formulated where emphasis on creation of employment opportunities should be made instead of expansion of credit.

The role of Andhra Pradesh State Financial Corporation in providing financial assistance to Small Scale Industries in Andhra Pradesh is examined by Sathyanarayana (1989). The study has been undertaken with the primary objective of evolving some criteria for the financial institutions to follow in their lending activities.

The working of Bihar State Financial Corporation (BSFC) is studied by Ram Chandra Singh (1990) and he suggests provision of financial assistance at concessional rates by BSFC.

In his work, Ray (1990) has provided a comprehensive review of Indian industrialisation. He deals in detail on the different aspects of industrial finance. The work contributes to the main stream of knowledge on the Indian industrial revolution and attends to all the vital aspects of the emerging concepts in Indian industrial development with clarity and perspicacity.

Reddy, (1990) in his study on small scale units in Vishakapatnam district concludes that bank finance in particular and institutional finance in general have contributed significantly in the promotion of small scale industries.

In a study confined to Dakshina Kannada district, Raghurama (1991) tries to analyse the problems faced by Small Scale Industrial units while
availing bank finance. The problems faced by the bankers and the procedure adopted by banks in extending finance are also examined.

In his study, Toor (1995)\(^49\) has taken care of the requirements of the banks and bankers on the one hand and the entrepreneurs themselves on the other hand and provides ready solutions to day-to-day financing problems of small scale industries.

Vivek Deolankar (1996)\(^50\) examines the small scale industrial units of Maharashtra in particular to the financial operations and he reveals that the Credit- Deposit ratio of the banks in Maharashtra in 1990-91 was 72.3\% as against an all India level of 61.9\% and the overdues percentage of banks of Maharashtra was 5.6\% as against 8.7\% at all India level during the same period. He concludes that in the present India context the socio-economic obligations of a banker include identification of project ideas, formulation of project, location of managerial talents, guidance to new ventures and assisting in the creation of employment opportunities.

Vasant Desai (1997)\(^51\) examines the role of financial institutions catering to the varied needs of the industry as well as the entrepreneurs. He has shown how the institutions meet the challenges of providing an integrated package of lending, technical assistance, economic analysis and management counselling that addresses the needs of individual industry.

Velayudhan (1999)\(^52\) brings out the important aspects of industrial growth of India from 1990 to 1998. He reveals the role of bank credit in the industrial growth. He discloses a fact that a one percent increase in bank credit led to 0.28\% increase in industrial growth during 1990-93, 0.63\% in 1993-96
and 0.42% in 1996-98. He recommends to reorient the methods and practices, thinking and attitude of banks towards lending to industry.

**Part B**

Part B is organised in two sections. Section I which deals with all aspects of industrialisation except finance and Section II which deals with only financial aspect.

Section I is again classified into two

a) Which covers the general aspects and

b) Which covers commodity based industries.

**Section I a General Aspect**

It covers the following studies.

Nair (1968)\(^53\) Desai (1972)\(^54\) Raunaq Singh (1984)\(^55\) Thomas Issac and Michael Tharakan (1986)\(^56\), Cochin Chamber of Commerce (1988)\(^57\), Mohanan Pillai (1994)\(^58\), Nandamohan (1994)\(^59\), Nandamohan and Thampi (1994)\(^60\), and Vijayachandran (1994)\(^61\) deal with industrial backwardness or industrial development of Kerala. They bring out the reasons for the industrial condition prevailing at that time.

Oommen (1972)\(^62\) discloses the role of small industries in economic growth. Mathew Kurian (1972)\(^63\), in his work is able to bring out the mistakes made in Pande Committee Report. Without any scientific support, the Committee asserted that Kerala was one of the industrially forward states so that the assistance from Centre might flow to other states. He concludes that
the condition of Kerala industrial sector can be improved only if Central Government avoid capitalism and embrace socialism.

Subramanian and Abdul Azeez (2000)\(^6\) compare the position of Kerala with other states.

Oommen (1979)\(^6\), (1981)\(^6\), High Level Committee (1984)\(^7\), Subramanian and Pillai (1985)\(^8\), Subramanian (1990)\(^9\), Thampi (1990)\(^7\) bring out the wage cost of the industries and how high wage cost lead to shifting of industries.

Labour unrest, Trade union activities and Political influences are highlighted in the studies of Ramachandran (1973)\(^1\) and Mohan Kumar. (1994)\(^2\).

Nandamohan (1989)\(^3\) studies about the capacity utilisations of industries in Kerala.


The general performance, problems and prospects of Kerala industries are highlighted by Prakash (1994)\(^10\).

**Section I b Commodity Based Industries**

Radhakrishanan (1989)\(^1\), Alice Albin (1990)\(^2\) and Subramanian (1994)\(^3\) concentrate on manufacturing industries as a whole.
Many researchers were attracted by the traditional industries like cashew, coir, handloom etc. While John Thomas Chirayath (1965)\textsuperscript{84} and Kannan (1978)\textsuperscript{85} concentrate on cashew industry, Coir Board (1960)\textsuperscript{86}, Nair (1977)\textsuperscript{87}, Navaneetha (1979)\textsuperscript{88}, Thomas Isaac (1984)\textsuperscript{89}, Department of Economics and Statistics (1986)\textsuperscript{90} and Thomas Isaac (1992)\textsuperscript{91} study on coir industry. While Directorate of Handloom (1981)\textsuperscript{92}, Karthikeyan (1985)\textsuperscript{93} and Mridul Eapen (1991)\textsuperscript{94} review the working of handloom industry, Abdul Azeez (1990)\textsuperscript{95} concentrates on beedi industry. Aravindakshan (1983)\textsuperscript{96} Mani (1990)\textsuperscript{97}, study the growth of tile industry. When John Thomas Chirayath (1966)\textsuperscript{98} Kerala Forest Research Institute (1977)\textsuperscript{99} deal with plywood industry John Thomas Chirayath (1968)\textsuperscript{100} and Janardanan (1993)\textsuperscript{101} highlight on match industry. Thariyan George and Toms Joseph (1992)\textsuperscript{102} and Mathew (1984)\textsuperscript{103} throw light on rubber industry. Lakshmidevi (1985)\textsuperscript{104} and Ushakumari (1992)\textsuperscript{105} review electrical goods industry. Ashitha Raveendran (2001)\textsuperscript{106} studies about engineering industry and Government of Kerala (1972)\textsuperscript{107} Bose (1988)\textsuperscript{108} and concentrate on electronic goods industry.

Kerala State Industrial Development Corporation Limited (1971)\textsuperscript{109} has conducted a study on Thrissur District to study the problem arising when industrialisation is embraced.

Besides these individual studies different departments of Government of Kerala and State Planning Board conduct studies according to need.

Section II Financial Aspects

Only a few researchers have concentrated on the financial aspect of industrialisation.
Financial system is compared with the circulatory system of a human beings. When the circulatory system is blocked temporarily the loss to the human body cannot be compensated. Similar is the case of financial system to the industries. Even then, only a few have studied this aspect which are listed below.

Krishnakumar (1975) studies the development of small scale industries giving importance to the contribution of banks. He finds that during 1974-1975 while the small scale industrial units of India as a whole enjoyed a lot of financial assistance from banks the small scale industrial units of Kerala enjoyed the least. He opines that it is not the shortage of government direction but the lack of interest of some industrial directorates and the bank authorities.

Mohanakumar (1984) examines the role played by commercial banks in general and more particularly by State Bank of Travancore (SBT) in financing small scale industries in Thiruvananthapuram district. He finds that SBT has failed to reach its targets because of lack of co-operation between the different governmental and financing agencies.

Padmakumar (1991) throws light on the preset practices followed by the Kerala Financial Corporation in formulating its business plans. He suggests that a comprehensive corporate plan can be formulated from the separate business plans prepared for all the sub-systems of the Corporation.

Sukumaran (1992) studies the effect of budgeting on some selected private and public undertakings in Kerala.
Thomas Koshi’s (1992)\textsuperscript{114} study mainly focusses on small, medium and large scale units financed by the non-banking financial institutions namely KFC and KSIDC.

Ganesh (1993)\textsuperscript{115} studies and compares the working of State Financial Corporations of four southern states namely, Kerala, Karnataka, Andhra Pradesh and Tamil Nadu. The working of Kerala Financial Corporation (KFC) was studied in detail by taking the case of KFC aided and non-aided units. In terms of overall operational performance, Karnataka State Financial Corporation ranked first.

Sreelekha (1993)\textsuperscript{116} has evaluated the working of Kerala State Industrial Development Corporation Limited and has brought out the efficiency of the institution.

Despite the large number of studies no comprehensive study has been conducted on the role of financial institutions (measured in terms of units’ performance) in the industrialisation of Kerala as per our knowledge. Thus, there exists a gap in research. The present study is a sincere attempt to find how far the various financial institutions helped the development of industrialisation of Kerala.

**Layout of the Report**

The report has been grouped into seven chapters. The first chapter the introductory one highlights the importance of industrialisation and the role of financial institutions in industrialisation. It also gives out the importance, scope, objectives, hypotheses, period, methodology, review of literature,
sampling design, data collection tools, tools of analysis and limitations of the study.

The second chapter titled 'Industrialisation of India and Kerala' provides a view of the industrial scene of India and Kerala.

'Industrial Finance in Kerala', the third chapter is devoted to review the financial institutions of Kerala.

The fourth chapter namely, 'Role of Financial Institutions' studies about the social background, impression and the feelings of the loanees about the three financial institutions.

The fifth chapter titled 'Performance of the Aided Units' assesses the role played by the financial institutions in the industrialisation of Kerala.

Chapter six analyses the problems faced by the industrial units.

The last chapter namely, 'Summary, Findings, Conclusions and Suggestions' summarises the findings of the previous chapters, presents the conclusions and make a few suggestions for improving the financial facility to the industries.
References


