CHAPTER – 7
SUMMARY FINDINGS AND CONCLUSION

The development of Small and Medium Enterprises has been main tributary into the national development framework. Building up market institutions should be accompanied by capacity building of appropriate institutional structures. Although competitiveness is a firm level phenomenon, macroeconomic and microeconomic environments influence market signals. To enhance SME competitiveness, therefore, requires the creation of enabling legal, regulatory and administrative environments, access to finance and capable institutional structures, and most importantly human capital and a sustainable environment. Removing supply-side constraint to trade and investment require firms to build up their competitive advantages. Donors (OECD and others) can help to expedite the learning processes involved by sharing good practices, they can technically and financially assist transition and developing countries in overcoming barriers, most importantly, and they can ensure that improved market access complements improved competitiveness of SMEs. Improving the investment climate for SMEs, and strengthening their capacities to respond to trade and investment opportunities, does strengthen the economic performance of SMEs and this in turn has a positive impact on growth and poverty reduction. SME development strategies in the broader national development or poverty reduction and growth strategy through institutionalized, participatory processes, as SME development entails improving: 1) The ability of governments to implement sound macroeconomic policies; 2) The capability of stakeholders to develop conducive microeconomic business environments; and 3) The ability of SMEs to implement competitive operating practices and business strategies. Enhanced public-private dialogue and partnerships with stakeholders (public, private, civil society and academia) are essential for identifying obstacles, effective tailoring and prioritization of support measures, and making effective investments in necessary infrastructure and institutions. Furthermore, institutionalized public-private dialogue and partnerships enhance ease of implementation, political credibility and sustainability of SME development strategies.
The SME sector has been consistently registering a higher growth rate than the overall industrial sector in the past few years. Despite recession and economic slowdown small scale units still account for one-third of manufacturing GDP and more than two-thirds of manufacturing employment. As a result of globalization and liberalization, coupled with WTO regime, Indian SMEs have been passing through a transitional period with slow down of economy in India and abroad, particularly USA and European Union and enhanced competition from China and a few low cost centers of production from abroad consequently many units have been facing a tough time in India.

Those SMEs who have strong technological base, international business outlook, competitive spirit and willingness to restructure themselves shall withstand the present challenges and come out with shining colours to make their own contribution to the Indian economy.

State Financial Corporation’s (SFCs) have been playing an important role in the promotion and development of small and medium enterprises in the state. There are 19 SFCs in the country, out of which 18 were established under SFCs Act 1951. The Tamilnadu industrial investment corporation ltd, established in 1949 under the companies Act, also functions as SFC.

Investment and employment of small scale industries in Karnataka have been increasing positively at 0.121 and 0.374 Percent per annum respectively. During 1997-98 units of industries, as well as investment and employment was reached at maximum level. In the same manner during 2007-08 investment and employment level has been reached at maximum level, but growth rate of units has increased by 19.11 per cent. The trends of these small industries and its growth can be seen in the diagram also in detail. The overall organized industrial sector of Karnataka has registered 9.03 per cent growth in 2012-13 as compared to 2011-12. For 2012-13, among the four broad groups, Basic goods registered the highest growth of 15.86 per cent followed by intermediate goods at 12.46 per cent consumer goods at 4.05 per cent & Capital goods 1.39 per cent.
KSFC has ventured into diversification in infrastructure development activity with the public or private participation model. The corporation has been allotted 10 acres land in Harohalli industrial area and 25 acres of land in Mysore by the State level single window clearance committee. It is proposed to develop IT/BT/SME Park in these lands.

Annual Growth Rate of paid up capital of the KSFC has been at increasing rate, it was 4.07 per cent in 1991-92 and it has increased to 32.90 per cent by 1999-2000 and during 2008-09 it has register at annual growth rate of 25.77 per cent. By the year 2009-10 it has increased to the extent of 313.70 per cent. Therefore, it has a continuous trend of growth has been registered by KSFC.

As far as financial assistance to SSI sector is concerned a marginal increasing trend can be seen through a trend line which is presented in a diagram. During 1991-92 it has increased to 39.45 per cent, by the year 1994-95 it has reached to the level of 107.58 per cent which is the maximum increase of growth in finance. During 2008-09, it has registered at 51.69 per cent and further it has increased during 2010-11 to the extent of 90.94 per cent of growth of finance.

As far as outstanding loans are concerned not much progress made during 1991 to 2005 but during 2005-06 it has increased to a maximum level of 130.56 per cent.

As far as growth rate of income is concerned the first decade has registered a positive growth of income and second decade it has noticed that there is a negative growth of income of KSFC in Karnataka. During the year, 2009-10 the corporation introduced the working capital term loan scheme for existing units to provide timely and adequate working capital assistance to the existing SMEs.

Karnataka State Financial Corporation (KSFC) and Karnataka State Small Industries Development Corporation (KSSIDC) have entered into an agreement mutually to extend a helping hand to SMEs in Karnataka.
Karnataka has been spearheading the growth of Indian industry, particularly in terms of high-technology industries in the areas of electrical and electronics, information and communication technology (ICT), biotechnology and, more recently, nanotechnology. The industrial structure of Karnataka presents a blend of modern high-tech capital goods and knowledge intensive industries on the one hand and traditional consumer goods industries on the other.

The average annual growth rates for the overall organized industry mainly for mining, manufacturing and electricity sectors for the period from 2005-06 to 2012-13 with base year as 2004-05 has been analysed. The compounded average growth rate (CAGR) for this period for the entire organized industry was about 7.0 per cent whereas it was 7.6 per cent for manufacturing and 7.7 per cent for electricity. A decline of 3.9 per cent was seen in the output of the State’s mining sector. The quarterly growth in IIP under major sectors for the first two quarters of 2011-12 to 2013-14 with base year 2004-05 is also explained its achievements along with the sector-wise weights. The State’s industrial sector has experienced positive growth in the first two quarters of the current year. During first quarter of 2013-14, the mining sector has once again recorded negative growth rate of 68.29 per cent. Where as in case of Manufacture (4.42%) and Electricity sector (5.91 per cent) positive growth is observed due to which marginal positive growth of 3.56 per cent is observed in the General Index. Similarly, in the second quarter the mining sector has once again observed negative growth of (57.97%) but there is double digit positive growth in electricity sector (15.83) and in manufacturing sector there is positive growth rate of 2.51 per cent , due to which positive growth rate of 3.21 per cent is observed in General Index.

The contribution of registered factories of Karnataka stood at 6.76 per cent of total fixed capital, 6.10 per cent of total output, and 5.86 per cent of Gross Value Added (GVA) in the same year. The share of Karnataka in total registered factories has decreased whereas total investment (fixed capital and working capital) has risen in 2010-11 as compared to 2009-10. However, the relative contribution of Karnataka’s registered factories to the national industrial performance in terms of total output, gross and net value added and profits has declined marginally during the same period.
Karnataka accounted for 4.37 per cent of total number of unorganized manufacturing enterprises and 4.33 per cent of the total unorganized manufacturing employment in the country in 2010-11. In terms of GVA per worker, at a value added of Rs.87299, Karnataka performed better than the all-India average. In addition to the manufacturing sector, service sector enterprises play a crucial role in Karnataka’s economy. The highlights of results of NSSO survey covering service sector enterprises (excluding trade) under the 63rd round in 2006-07 are narrated its growth. The number of enterprises and number of workers as well as GVA per enterprise and GVA per worker. Karnataka accounted for 4.9 per cent of the total service sector enterprises and 4.8 per cent of the total service sector enterprise workers in the Country. In terms of both GVA per enterprise and GVA per worker, Karnataka stood first in the country and accounted for more than twice as much as that of all-India average in terms of GVA per enterprise as well as GVA per worker.

The main business activity of the KSFC is mainly lending finance to industrial enterprises. KSFC is a financial institutional market for industries. It extends all types of financial assistance in the form of long term loans, short-term loans (in the form of corporate loans), lease finance, hire purchase finance, merchant banking and financial service etc. KSFCs assistance covers almost all types of industrial and service sectors. KSFC is a category one merchant banker as approved by Securities and Exchange Board of India (SEBI). The Merchant Banking Division takes up management of public issues, DPG syndication of loans, bills discounting etc. The other activities are subscription to the non-convertible debentures and factoring services. Sources of funds for KSFC are Share capital, Line of credit from SIDBI, Line of credit from banks, fixed deposits; Seed capital and other agency funding, Margin money from state Level Corporation, Recoveries, Income from interest and other activities. KSFC provides long term loan for Establishing the new firm, Expansion of the existing firm, Modernization of the firm, Technology up gradation, Working capital requirements.

7.1 Findings of the study

➢ The trend of paid up capital of KSFC has been increasing marginally at 2.66 percent per annum during 1990-91 to 2012-13.
➢ The trend of financial assistance to Small Scale Industrial sector byKSFC has also been increasing marginally at 0.014 percent per annum.
The growth rate of annual disbursements of SMEs by KSFC has been declining marginally at minus 2.63 percent per annum.

The growth rate of loan recoveries by KSFC also registered a declining trend marginally by minus 1.14 percent per annum.

The annual growth rate of operational profit of KSFC has also been increasing at marginally 0.83 percent per annum.

The growth rate of Financial Assistance for different schemes under KSFC has also been registered an increasing trend at 1.374 percent per annum.

Karnataka State Finance Corporation has a positive influence on investment, output and employment of small and medium enterprises in the state of Karnataka.

The total sample of the study comprised of 160 SME units in Bangalore Urban District. Out of the total sample survey on Karnataka State Finance Corporation, a maximum of 130 manufacturing industries constitutes 81.4 per cent and service industries comprised of 30 units i.e. 18.6 per cent of the total units.

The majority of the owners or promoters of small and medium industries who are 57 which constitutes in the age group of 41-50 years who accounts for 35.4 percent of the total sample, which is followed by 44 owners in the age group of 51-60 years who are of 27.3 per cent of the total.

Out of the total sample, a maximum of 52 owners i.e. 32.9 per cent who belonging to Vokkaligas and about 27 owners i.e. 16.8 per cent of them are also belonging to OBCs. Nearly 25 owners of industries i.e. 15.5 per cent of them are belonging to Scheduled Caste.

The majority of the owners are having the technical education i.e. 98 owners who comprised of 60.9 per cent and general education with 60 owners with 37.9 per cent and a few of them are with training of ITI i.e. 2 owners constitutes 1.2 per cent of the sample.

A maximum number of owners are married i.e. 128 of the sample which accounts for 79.5 per cent. About 23 owners who constitute 14.3 per cent are single without spouse and only 9 of them comprised of 6.2 per cent are diverse from wife.
- Nearly 9.4 per cent i.e. 15 of the total sample comprised of 65 per cent to 70 per cent of installed capacity.
- Only 30 SMEs have expressed that they have productive capacity in quintals of production and its average production during the last five years from 2008-09 to 2012-13 analyzed.
- The manufacturing production value during 2008-09 comprised of Rs. 32671.30 lakhs and it has increased to Rs.56396.24 lakhs by 2012-13. Its annual growth rate has also been increased from 11.09 percent in 2009-10 over the previous year 2008-09, and the annual growth rate has also increased to 32.25 per cent by 2010-11.
- Out of 160 SMEs about 25 per cent of Micro enterprises expressed that they have 3.81 per cent of labour. Nearly 53.75 per cent of small units expressed that which has 27.26 percent of labour and about 21.25 per cent of the medium enterprises who has 68.93 per cent of labour.
- A maximum of 25 per cent of factory workers who received the salary of Rs. 8001 to Rs. 11000 and about 20.6 per cent of them have received Rs. 14001 to Rs.17000 and about 20 per cent of them have received the salary of Rs. 5001 to Rs.8000. At least 15.6 per cent of them have received monthly salary of Rs. 14001 to Rs. 17000.
- A maximum of 16.9 per cent of them have received the bonus of Rs. 8001 to Rs.11000 and about 14.4 per cent of them have also received Rs. 11001 to Rs.12000.
- On an average each unit has been made the sale value of Rs. 144.67 lakh in 2008-09 with 12 units. The sale value has been declined to Rs. 127.13 lakhs in 2009-10 and Rs. 120.37 lakhs in 2012-13.
- The different types of financial assistance of KSFC have extended to Small and Medium Enterprises such as land, buildings, plant and machinery and others. Out of the total 131 SME units were availed the financial assistance for the purpose of plant and machinery on an average each unit has attained the assistance of Rs. 814 lakhs. Other purposes and Building the assistance has been received at Rs.1258.92 and 1292.08 lakhs respectively. Land purchase, the financial assistance of Rs. 837.97 lakhs.
The manufacturing units of Small and Medium Enterprises of Karnataka State Financial Corporation have been paying sales tax and service taxes to the government.

Excise duty paid for exporting and importing of commodities of SMEs has been analyzed for the period of 5 years. The amount paid in the form of excise duty has increased from Rs.413.7 lakhs to Rs. 1349.6 lakhs during 2008-09 to 2012-13.

The service units have also been increased from 8 units to 24 units with an increase of income tax form Rs. 8 lakhs to Rs. 135.89 lakhs.

The average cost manufacturing sector constitutes Rs. 245.31 lakhs per unit and service units are having the working cost of Rs. 90.79 lakhs.

The profit earning units have also of increasing from 41 to 111 units with an absolute profit of Rs. 909.11 lakhs to Rs. 2647.51 lakhs of manufacturing units.

A maximum 88.12 per cent units have been facing the problems of price competition in the market which is followed by 68.75 per cent of them are facing the problem of distribution of marketing. About 87.5 percent of them said the problem of high competition of marketing.

About 14.9 per cent of the units are exporting other countries. Only 2.5 per cent units are importing from other countries and another 2.5 per cent of units are doing the activity of exports and imports under the small and medium enterprises.

A maximum 4.2 percent of SMEs are exporting to UK Switzerland. Each one SME i.e. about 0.6 per cent are exporting to Australia, UK, Gulf Countries, Italy, Latin and South America, Middle East and Singapore and South Africa.

A maximum of 3.75 per cent of SMEs are importing the commodities and raw materials for increasing of production capacity of the units. Only 6 units of SMEs are importing from Australia, Denmark, Indonesia, Kattara, Thai, and USA. Therefore, A very few of them, are importing the raw materials from different countries.

Small and Medium Enterprises of 21 units has been earning the export value on an average Rs. 41.66 lakhs per unit. Nearly 2.5 per cent of the total sample have been earning of Rs. 30 lakhs of export value. About 1.9
per cent of the units have been earning Rs. 10 lakhs per annum and another
1.8 per cent of them have also been earning Rs. 50 lakhs per annum.

➢ Each of the SMEs has been made expenditure in the range of Rs. 2.0 lakhs
to Rs. 120 lakhs. About 2.5 per cent of the units have been spending at Rs.
5 lakhs on the exports and the same proportion also spending at Rs. 20
lakhs.

➢ Nearly 5 units that are 3.12 per cent have expressed that they have some
problems at exporting of their commodities such as correct packing,
systematic time, export restrictions, not intervention and encouragement of
government, high export duties, price fluctuations, restrictions on exports.

➢ A very few industrial units are imported the product in the value of Rs. 5
lakhs to 300 lakhs which accounts only 3.7 per cent of the sample. The
majority of units are not importing any type of material.

7.2 Regression Results

Investment in SMEs by KSFC in Karnataka

The regression model consisting time period as explanatory variable and
investment of SMEs assisted by KFSC is dependent variable. The F value of the
model 28.849 is statistically significant at 0.05 (P value < 0.05) and the individual
regression coefficient of time period is statistically significant (P value < 0.05) and
has positive impact on investment. From the sample data, there is enough evidence to
reject the null hypothesis of no significant growth in investment and the linear upward
trend is justified. Hence, KSFC influence on investment of the SMEs over a time
period is statistically positive.

Output of SMEs Assisted by KSFC in Karnataka

The regression model consisting time period as explanatory variable and
output of SMEs assisted by KSFC is dependent variable. The F value of the model
6.329 is statistically significant at 0.05 (P value < 0.05) and the individual regression
coefficient of time period is statistically significant (P value < 0.05) which implies
that out as been increased in the study period significantly. From the sample data,
there is enough evidence to reject the null hypothesis of no significant increase in
output and the linear upward trend is justified. Hence, KSFC influence on output of
the SMEs over a time period is statistically positive.
Employment of SMEs Assisted by KSFC in Karnataka

The regression model consisting time period as explanatory variable and Employment of SMEs assisted by KSFC is dependent variable. The F value of the model 2.671 is statistically insignificant at 0.05 (P value > 0.05) and the individual regression coefficient of time period is statistically insignificant (P value > 0.05). Hence, KSFC influence on employment of the SMEs over a time period is statistically insignificant with positive trend. From this it can be inferred that though SMEs are labour intensive and employment growth is positive over the study period, but the growth of employment is not alarming.

Determination of Production by fixed capital, working capital and number of persons employed at SMEs of Bangalore Urban district

The regression model consisting fixed capital, working capital and number of persons employed are explanatory variable and production of SMEs is dependent variable. The F value of the model 85.485 is statistically significant at 0.05 (P value < 0.05), however, the individual regression coefficient of number of persons employed is statistically significant (P value < 0.05) and has positive impact on production. The other two regression coefficient of fixed capital and working capital are statistically insignificant. (P value > 0.05). From the sample data, there is enough evidence to reject the null hypothesis of no significant influence of number of employment on production whereas the sample evidence do not support to reject the null hypothesis of no significant influence of fixed capital and working capital on production.

Determination of SMEs production by financial assistance of KSFC

The regression model consisting financial assistance by KSFC is explanatory variable and production of SMEs is dependent variable. The F value of the model 4.702 is statistically significant at 0.05 (P value < 0.05), however, the individual regression coefficient of financial assistance is statistically significant (P value < 0.05) and has positive impact on production. From the sample data, there is enough evidence to reject the null hypothesis of no significant influence of financial assistance on production.
Determination of Employment of SMEs by financial Assistance of KSFC

The regression model consisting financial assistance by KSFC is explanatory variable and number of persons employed at SME’s is dependent variable. The F value of the model 49.633 is statistically significant at 0.05 (P value < 0.05) and the individual regression coefficient of financial assistance is statistically significant (P value < 0.05) and has positive impact on number of persons employed. From the sample data, there is enough evidence to reject the null hypothesis of no significant influence of financial assistance on number of persons employed.

Determination of profit of SMEs by financial assistance of KSFC

The regression model consisting financial assistance is an explanatory variable and profit of SME’s is dependent variable. The F value of the model 9.707 is statistically significant at 0.05 (P value < 0.05) and the individual regression coefficient of financial assistance is statistically significant (P value < 0.05) and has positive impact on profit. From the sample data, there is enough evidence to reject the null hypothesis of no significant influence of financial assistance on profit whereas the sample evidence do not support to reject the null hypothesis of no significant influence of financial assistance on profit.

7.3 Suggestions and Policy Implications

- Increase efforts to develop transport costs in setting up and doing business are minimized through fair, simple and less costly taxation, customs, licensing, registration, financial, judicial, and other governance systems and procedures.
- Facilitate availability of land access to loan and equity finance, particularly medium to long-term opportunities to improve trade and investment capacity of SMEs. While maintaining sound government finances will help availability of finance for development purposes.
- The employment growth has to improve by encouraging more financial assistance to labour Intensive industries by the corporation.
- Management of SME needs to look into the working capital management techniques and financial aspects at least once in a month by KSFC.
- There is a need to set up an agency by the government for the supply of raw-material for the SMEs in the state.
There is need of encouragement of providing subsidies for export oriented SMEs and need to reduce export duties.

KSFC should reduce the time required to approve the loan sanction period.

KSFC interest rates are high compare to the other commercial banks. It should be revised for this government control should be minimized and working should be done as in a private company.

Achievement of targets to the recovery of loans by officers and a special incentive should be provided to those officers.

The appraisal department has to consider more parameters in the area of technical analysis, financial analysis and marketability of the product while sanctioning the financial assistance to the project.

KSFC should establish a system for credit risk evaluation and fine tune their norms of debt equity, current ratio etc. to improve borrower's stake for facing cyclical ups and downs.

Recovery officers must be thoroughly trained by reputed training institutes and seminars to be conducted by various development financial institutions. Setting up separate monitoring department should make credit monitoring functions more effective.

Careful analysis of prospective borrowers should be made both project and the person behind the project should be viable and competitive one. Entrepreneurs with necessary background and training must be encouraged.

The Role of Karnataka State Financial Corporation in empowering the SMEs is remarkable. The performances of SMEs which are assisted by KSFC in terms of production, employment, profit are appreciable due to the positive growth. On an average the productive capacity of SMEs at Bangalore Urban district during last five years from 2008-09 to 2012-13 have a maximum of 2649.3 quintals of production. Nearly 53.75 percent of small units expressed that which has 27.26 percent of labour and about 21.25 percent of the medium enterprises who has 68.93 percent of labour. The labour in factories is concerned only 4.42 percent of labour in micro enterprises, about 31.15 percent in small enterprises, and nearly 64.07 percent of enterprises in medium units. The profit of manufacturing enterprises and service enterprises has been continuously at increasing trend from 2008-09 to 2012-13. Profit earning units
also of increasing from 41 to 111 units with an absolute profit of Rs. 909.11 lakhs to Rs. 2647.51 lakhs of manufacturing units. As far as service units are concerned, the profit earning units have been increased from 8 units to 24 units with a profit of Rs. 34.50 lakh to Rs. 332.60 lakhs. The profit is continuously increasing every year of these five year period. The average profit of both manufacturing and service units has in the range of Rs. 17.90 lakh to Rs.22.07 lakhs. The average value of export by SMEs is Rs. 41.66 lakhs (21 units) is remarkable. The problem of price competition in the market (88.2 percent of units), the problem of high competition while marketing the products (87.5 percent of units), lack of awareness regarding marketing their product or service or both (51.87 percent of units), the problem of scarcity of raw materials (16.25 percent of units) along with restriction while importing raw materials and seasonal availability (13.12 percent of units), the participation of SMEs in exporting their products or services are meagerly low (2.4 percent of units), the low quantity of export which varies in the range of 20 tonnes to 400 tonnes etc are found out as major bottleneck for their promotion. Hence, addressing these issues by KSFC will pave the way to eliminate SMEs problems. Therefore, the present study exemplifies the role of KSFC to SMEs in the direction of financial assistance is appreciable; however, this alone is not sufficient. Diversification of functions of KSFC rather concentrating just traditional mode of financial support is utmost important to uplift the SMEs and to make them empower.