CHAPTER 1

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CHAPTER -1

"PERFORMANCE EVALUATION OF STATE FINANCIAL CORPORATIONS' IN INDIA - A CASE STUDY OF KARNATAKA STATE FINANCIAL CORPORATION"

Introduction

After the independence it was recognized that the State should pave the way, as a matter of deliberate policy, for achieving economic development and creating necessary conditions and institutional infrastructure. In the years that immediately followed the second world war, the problem of reconstruction and quicker economic development brought forth, both in developed countries ravaged by war and in under-developed countries, certain special agencies which later on came to acquire the generic name of 'Development Banks', to canalize funds to industries. As there was a gap in the institutional arrangements as regards provision of long-term funds and a need for quickening the pace of industrialization in India, the Government of India, as a first step, set-up an all India financing agency, namely Industrial Finance Corporation in 1948. The establishment of IFCI bridged a serious gap in institutional finance for large-scale industries but the problems of long and medium-term capital for small scale and medium scale industries was left unresolved. Small-scale industries are labour intensive and help in the dispersal of industrial activity there by fostering industrial development of backward regions of the country. Moreover, the entrepreneurs who start the small scale units are first generation entrepreneurs and lack necessary finance. In addition IFCI cannot cater to the financial requirements of small units located throughout the country. So, the Government of India felt the need to establish institutions, like IFCI, at the State level also, specifically to meet the financial requirements of medium and small-scale industrial units and hence it
passed the State Financial Corporations bill in September, 1951 which came into force from August 1, 1952, paving the way for setting-up State Financial Corporations. The first SFC was set up by the Government of Punjab in 1953 and thereafter a number of other States followed suit. Now there are 18 SFC’s functioning throughout the country.

**Rationale of development banks**

Finance continues to be largely a nonsubstitutable growth catalyst. Finance facilitates as well as strengthens the growth process\(^1\). However, finance is not the sufficient condition for growth. Though, finance and development are intimately interwoven, possess distinct identify of their own and so there does not exist unilinear causal relationship between the two.

The huge sums involved in the large number of sick units in India bears proof of the fact that finance divorced from a well-meaning project is bound to create such a situation. Therefore, it is felt that development is a complex task and it depends upon several variables with finance being of paramount importance. In view of this DFI’s perform both the functions of finance and development. B.K. Madan has underlined this point in the following words:

“\(^{1}\) It is now universally acknowledged that finance is only the first element of the assistance package dispensed by DFI’s of which technical, managerial and commercial including marketing know-how are increasingly important ingredients. More and more,

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the development bankers administer a blend of financial and development services\(^2\). Like wise, Boskey views development banks as a financial intermediary supplying medium and long-term funds to bankable economic development projects and providing related services\(^3\).

Thus, it is clear that development banks, as distinguished from commercial banks and other financial institutions, have some unique features of their own. Some important ones are as follows:

(1) **Development outlook and non-enclavist approach**

In contrast to “Patronage Psychology, a hallmark of routine banking transactions, the development banks are marked by development outlook”. Development finance implying real investment in fixed assets cannot be divorced from the concept of development\(^4\). Operationally, it signifies that developments banks should not fall prey to enclavist approach or class-orientation.

(2) **Development priorities**

The developments banks are opposed to the “let the client approach” – again a bench mark of commercial banks. In other words, finance and other services are made available to only those projects which ensure priority-test commercial viability and technical feasibility. This implies that adequate funds should be

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provided to desirable projects in consonance with the objects of national policy and planning.5

(3) Development of Strategy

Development Banks are also expected to adopt and implement “development strategy”. Clarifying this Diamond writes, “the phrase” implies a level of knowledge of wider opportunities, an entrepreneurial capacity, and a systematic over-view of alternatives which development banks can have, and role for a development bank goes for beyond the realities. I prefer the more modest characterisation of this process as directing the development banks efforts towards new opportunities for investment and for service which are both profitable and economically sound”.6

(4) Social profit orientation

In contrast to commercial profit maximisation objective of the commercial financial institutions, the development banks are preeminently concerned with the optimisation of social profits. While commercial profit is usually quantifiable and has monetary connotations, the social profits may defy both. Moreover, while commercial profit tends to be concentrated in the hands of few rich, social profits is designed to be diversified widely amongst the rank and file of a social unit. Further, whereas, commercial profit is usually taxable, it may be neither desirable nor feasible to tax social profit in many situations.

(5) **Enterprise creation and promotion**

Another point on which development banks stand apart from other financial institutions is their role pertaining to creation, widening and promotion of enterprise, including grooming for entrepreneurial responsibilities. Generation of new entrepreneurship is undoubtedly a very significant function of development banks and has been rightly acknowledged by many scholars.

(6) **Active engines of development**

Presently development banks are looked upon not only as engines of development but also as a “growth sector” in themselves. It has been rightly observed that development banks need not be passive instruments of economic activity, with dynamic management and an adequately permissive environment of available opportunities and of favorable policies, they can be active engines of development as they have been in the past.

(7) **Decentralized, diversified and diffused growth**

Development banks have been entrusted with a very vital responsibility of promoting balanced regional growth. In India, this role has been emphasised unequivocally by the Planning Commission in the Statement that “the pattern of investment must be so devised so as to lead to balanced regional development”. In the words of Simha “balanced regional development and encouragement to small and new entrepreneurs are now almost universally considered to be essential aspects of the functioning of development bank”.

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7 B.K. Madan, op. cit.
8 William Diamond, op.cit., P.55
9 Government of India, Planning Commission, Second Five Year Plan, GOI, Printing press, New Delhi, 1956, P.3
10 Simha, Development Banking in India, P.5
(8) Gap – filling

Development banks can be distinguished from the commercial banks in the sense that while the latter owe their origin and growth to the institutionalisation of personal savings and their channelisation to profitable investment outlets, the former have been conceived as gap-fillers. “Development banks are like artificial limbs created to compensate for the relatively slow growth of the normal sources of finance...They are, in effect, merely distributive agencies. Other financial agencies, in marked contrast, are originally linked with the pool of savings and combine into one single organization both the functions of collection of savings and their distribution to industries/enterprises”\textsuperscript{11}.

(9) Enhancing productivity of investment

Developments banks are enjoined not only to supply adequate investible funds but also to increase the productivity of investment already made. This can be achieved through technological progress, managerial efficiency and increased capital stock. “In underdeveloped countries where these are in relatively short supply, development banks can be used to provide some of them”\textsuperscript{12}.

(10) Technological upgradation

It is recognised that without up to date know how the goal of rapid economic development would remain a distant dream. In the field of technology again, the DFI’s with their technical advisory department would be well advised to give a high place to upgradation of indigenous technology and process”\textsuperscript{13}.

\textsuperscript{11} M.Y. Khan, op. Cit., P.128
\textsuperscript{12} Singh, Role of Development Banks, PP. 25-26
\textsuperscript{13} B.K. Madan, op. Cit., 2-3
(11) **Skill formation**

An important task of development bank is to generate or enhance required skills through appropriate training and other incentives. "Dearth of technical and managerial skills also constitute impediments to progress and development banks can render assistance in the development of these skills too, to a moderate extent."  

(12) **Development of capital market**

Inadequate capital supply, coupled with and sometimes a by-product of imperfect capital market, a marked feature of developed economies and ill developed capital market, a predominant characteristic of developing economies can be considered an obstacle to economic growth. Hence, a strong case for development banks, in both types of economies. Further in contrast to money market, which is the market for very short-term loans or self-liquidating funds, capital market is the market for medium term and long term loans. Commercial banks generally deal with the former while the latter field comes under the domain of development banks.

(13) **Education experience and counseling**

The development banks act as the educator and counselor right from the stage of appraisal process of a project to its effective implementation as well as management.

(14) **Research**

A related area of activity where development banks can contribute in a big way is research and development. Development banks have repertory of case studies based on their own abundant experience of various approaches to the problem of

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14 Simha, op. Cit., P.8  
16 Boskey, op. Cit., P.5
putting soundly based enterprises on foot. This may help the units to be run successfully without becoming sick.

(15) **Rapport with the Government**

Rapport between the Government and a development bank is all the more desirable. Development banks must use its experience and try to help the Government in formulating rational and realistic policies. A development bank, because of its deep immersion in the daily operations of firms, has an intimate knowledge of the market place. That knowledge can be of great service to the Government in devising effective policies based on economic realities.

(16) **Acquisition and allocation of foreign capital**

An important responsibility of a development bank is to tap the foreign capital resources and to allocate it in the desired channels in consonance with the priorities of economic planning and national development. Simha has stressed this point by stating “the developing countries have also to obtain foreign capital and to mobilise and disburse it in the country the services of an institution like a development bank would be very useful. This is especially so where the funds are obtained from international development banks such as the world bank affiliate the IDA”.  

(17) **Method and mode of financing**

An important factor contributing to the growth of development banks is the recent developments concerning the method and mode of financing. Budgetary approach to finance is being increasingly replaced by the project approach. This new approach envisages a comprehensive project analysis of a proposal with regard to

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17 Simha, op. Cit., 7-8
its technical, financial, commercial and social aspects before funds are sanctioned. Lately the managerial component has also come to receive some attention in the wake of growing incidence of sickness. Shifting to the pattern of lending, it is found that alongside traditional modes of financing, underwriting of and direct subscription as new forms of financing are gaining in significance. In both these areas, the formidable assignment can be undertaken by development banks.

Evolution of Development Banks In India

All-India financial institutions

The British’s did not show any concern for the rapid industrialisation of the Indian economy and its concomitants such as developed capital market, broad based infrastructural facilitates etc.

So, immediately after independence the Government having vowed to take the country to the threshold of rapid socio-economic development took measures for the creation, expansion and promotion of institutional finance intermediaries in the public sector at the all-India as well as at regional levels.

(1) Industrial Finance Corporation of India

The IFCI was the first development bank in the country established by an Act of Parliament soon after independence in 1948. It was established for the purpose of making available medium and long term credit to industrial concerns in India.

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Assistance from IFCI is available for the setting up of new industrial projects, expansion, diversification and renovation of existing units. The IFCI sanctions financial assistance in the form of rupee loans, foreign currency loans, underwriting of and/or direct subscription to shares and debentures and guaranteeing of (1) deferred payments for the purchase of machinery from India or abroad, (2) foreign currency loans raised by industrial concerns from foreign institutions and, (3) rupee loans raised by industrial concerns from scheduled banks or State co-operative banks or in the market.

(2) **Industrial Credit and Investment Corporation of India Ltd.**

The ICICI was setup in 1955 to encourage and assist industrial development and investment. The World Bank played an important role in its formation.

The ICICI provides long / medium term assistance in the form of loans or equity participation for the creation, expansion and modernization of industrial enterprises and in promoting the capital participation in them. Besides, the ICICI extends managerial technical and advisory services, provides credit facilities to indigenous manufacturers for promoting sale of industrial equipment on deferred payment terms and also offers equipment leasing facilities.

(3) **Life Insurance Corporation of India**

The LIC was constituted in 1956 as a wholly - owned Government Corporation. Besides assistance to industry, LIC extends resource support to term lending institutions. The LIC also grants term loans for setting up of industrial estates.
(4) **Unit Trust of India**

The UTI is an investment institution which offers the small investors a share in India’s industrial growth and productive investment with minimum risk and reasonable returns.

Established on February 1, 1964, UTI mobilizes the savings of the community through the sale of units under different schemes. These savings are channelised into productive and profitable investments so as to fulfill its basic objective of ensuring for the unit holders, safety and security of their capital and regular growing return on their investment in units.

(5) **Industrial Bank of India**

Established on 1st July 1964, IDBI has been operating for nearly four decades as an apex national development bank in the field of industrial finance in India. During the twelve years, it operated as a wholly-owned subsidiary of the Reserve Bank of India, the central banking institution.

In view of the manifold increase in the IDBI’s activities and its diverse responsibilities, legislation was enacted in 1975 for reconstituting IDBI as a wholly-owned undertaking of the Government of India and making IDBI the “principal financial institution for coordinating, in conformity with national priorities, the working of institutions engaged in financing, promoting or developing industry, for assisting the development of such institutions and for providing credit and other facilities for the development of industry and for matters connected therewith”.

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(6) **General Insurance Corporation of India**

The GIC was formed in 1971. Since the nationalization of general insurance business, the GIC group having four subsidiaries has made concerted efforts to develop non-traditional business, diffuse general insurance to rural areas and to introduce new covers for weaker sections of the society.

(7) **Industrial Reconstruction Corporation of India Ltd.**

The IRCI was setup in April 1971 mainly to provide financial assistance on soft terms. Such loans are, however, not intended to be utilized for the repayment of other institutions.

The IRC’s assistance is available primarily for I) meeting essential capital expenditure for renovation, installation of balancing equipment, diversification, expansion and modernization. II) Bridging the liquidity gap as also providing margin or working capital and III) meeting pressing liabilities considered necessary for the purpose of reconstruction etc.,

(8) **Export Import Bank of India**

To strengthen the institutional frame work for encouraging the export of non-traditional products, particularly in the context of increasing competition in the international market for export credit, the Export – Import Bank of India was established on January 1, 1982.

As a public financial institution coordinating the working of institutions engaged in financing export and import it is entrusted with the responsibility of financing, facilitating and promoting foreign trade of India.
State level institutions

Political federalism without economic federalism has no meaning. Economic federalism implies that institutions of socio-economic development should receive equal attention both at the Central and the State levels. So the Government of India has taken legislative measures to establish DFI's at the State levels also.

1) State Financial Corporation

An Act – State Financial Corporations Act, 1951 was enacted by the Government of India as an enabling legislation empowering the State Governments to establish DFI's in their respective regions. Under the Act, SFC's as specialized State-level institutions, for providing term finance to small and medium enterprises, have been set up.

The underlying idea in creating the SFC's was to supplement the existing non-specialized traditional sources of credit. IFCI was confined to the public limited companies in the private sector and co-operative societies. Both the non-corporate enterprises and the public undertakings were beyond its purview. Besides, the small and the medium scale industries in different States were also denied their dues. Moreover, the capital base of the IFCI was quite inadequate to meet the growing demands of the industries. Moreover the IFCI was a remoter agency so far as the problem of intrastate disparities was concerned. Against this background, it became essential to set-up financial corporations at the State level. Notably SFC’s meet the financial requirements of small and medium enterprises.
2) **State industrial development corporations**

In addition to SFC’s, the State Governments have also set up State Industrial Development Corporations during the sixties, to act as catalytic agents in the industrialization of States. There are at present 25 SIDC’s operating either as limited liability companies under the Indian Companies Act or as autonomous corporations under the specific State Acts.

SID’s have on their own or in assistance with other State level agencies, been conducting techno-economic surveys of industrially backward areas for the identification of potential entrepreneurs and specific project ideas. In some States they also undertake such other activities as development of industrial areas, preparation of project profiles and offering consultancy.

3) **Technical Consultancy Organization**

The IDBI and other All-India development banks took the initiative in establishing technical consultancy organizations in different parts of the country to provide consultancy services to small and medium enterprises at reasonable costs. The first TCO was established in June 1972. At present, there is network of 15 TCO’s catering to the needs of small and medium enterprises all over the country.

The major activities of TCO include industrial potential surveys, identification of projects, preparation of project profiles, feasibility studies and evaluation of projects referred to them by entrepreneurship development programmes.
Karnataka State Financial Corporation

Taking cognizance of the fact that backward economy of Karnataka has enough potentialities of industrial growth provided the medium and long-term credit requirement of industrial sector are taken care of, the Government of Karnataka, set-up Karnataka State Financial Corporation in 1959.

Review of literature

1) Rangarajan

R.S. Rangarajan has published a research article entitled ‘Role of SFC’s in Financing Industries: Case study of three Corporations”. In his study Mr. R.S. Rangarajan has analysed the role played by three SFC’s viz., TIIC, KSFC and Kerala SFC in the financing of small scale industries, financing of backward district and he has also analysed the profitability’s of three corporations. The secondary data used in the study relate to sanctions, disbursement, sanction to backward district and are obtained from the Annual reports of the respective SFC’s.

In addition to Intra SFC analysis inter SFC analysis has also been carried out in the study. Ratio analysis and percentage methods of statistics are used to analyse the data. Important conclusions of the study are that while the corporations have grown in their operations, the level of performance varies markedly among them.

2) Ahmed Umar Khan

Ahmed Umar Khan in his article entitled “Small units and Role of SFC’s”, has analysed the role played by SFC’s in India in the promotion of the growth of Small-Scale Industries, removal of regional disparities in industrial development etc., Some of the important conclusions drawn are that SFC’s are playing an important role in institutional

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18 R.S. Rangarajan, Southern Economist, April 1, 1980, Bangalore, 41-45
19 Ahmed Khan, Capital, March 23, 1981, New Delhi., 5-7
financing of industries particularly Small-scale industries and industrial development of backward regions. For the purpose of the study secondary data relating to sanctions, sanctions to backward districts, published in the Annual reports of the IDBI is made use of.

3) **B. Appa Rao**

"Role of SFC's in promoting small enterprise" is the title of the research paper published by B. Appa Rao. In this article B. Appa Rao has analysed the historical necessity of establishing SFC's in India.

He has also analysed the role played by all the SFC's in financing Small-scale units providing financial assistance to backward areas, assistance to Technician entrepreneurs jointly as well as individually. For the purpose of the study time-series data relating to sanctions, disbursements from 1970-71 to 1980-81 is used. Inter SFC comparison also has been carried out in this article. Some of the important conclusions of this study are:

1) Prior to 1966, the SFC's were channelising a major share of their assistance to medium enterprises. This trend has been reversed in favour of Small-scale industries;

2) SFC's have shown greater preference to assist the units in backward areas;

3) The performance of SFC's in extending financial help to technician entrepreneurs has been rather low and the implementation of the scheme is also somewhat lopsided.

4) **Dr. S Akram**

In his research article entitled “SFC's striving for a dynamic developmental financing of small enterprises”. Dr. Akram, has analysed the role of SFC's in financing

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20 B. Appa Rao, Role of SFC’s in promoting Small Enterprises, Yojan, 16-31, July 1982, New Delhi, 17-19
the growth of small-scale and medium scale industries in different States. Performance in Bihar SFC is also analysed in term of sanctions, disbursement and recovery and sanctions to backward areas and small-scale industries. Important conclusion of this study is that the SFC's are playing significant role by giving term loans and other facilities to small-scale enterprises. To analyse the role played by SFC's in the country the data relating to sanctions and disbursements at three points of time viz., 1970-75, 1975-80 and 1980-85 are used. To analyse the performance of Bihar SFC data relating to the above variables during the last quarter of 1985-86 are used.

5) V.V.N Somayajulu and K. Mahanth

In this research paper entitled “Economic Evaluation of APSFC 1957-1982” an attempt has been made to assess the role played by APSFC and focuses on the nature, extent, lines and methods of its financing and the involved socio-economic implications.

The objects of the paper were:

1. To analyse APSFC's methods, terms and conditions of financing and differential growth in its sanctions and disbursements to different industries, according to sectors, size of capital, region etc.,

2. To review the role of APSFC in financing industries in backward regions or industrially less developed districts of the State.

3. To measure concentration of assistance

The time series data published in the annual reports constitute the major source of data for this study. To measure concentration or dispersal of financial assistance to industries Herfindahl index is used.


6) **Satya Prakash Singh, Asha Arora, Manoj Anand**

In their research article entitled “performance evaluation of SFC’s - A comparative study of PFC & HFC”. The operational performance of PFC & HFC in terms of (a) total assistance sanctioned and disbursed, (b) assistance sanctioned and disbursed to small-scale industries and (c) assistance sanctioned and disbursed to backward areas is carried out. Managerial performance is analysed in terms of (1) correct choice of projects, which perform better (2) over dues.

Time series data relating to sanctions, disbursement and recovery are used. Ratios are also calculated to comment on the solvency and profitability of PFC & HFC respectively. The conclusions of this study are that the operational performance of PFC is better than that of HFC. But profitability of operations of HFC is better than that of PFC.

7) **Dr. (Mrs) Vinod Batra**

Dr. (Mrs) Vinod Batra in her doctoral thesis, published in the book form, has analysed the role played by Rajasthan SFC in the growth of small and medium industries. A comparative study of the performance of Rajasthan SFC with Maharashtra SFC is also carried out. In addition, perception of the loanees about the functioning of the Rajasthan SFC is also analysed in the study. Published data relating to sanctions, disbursements, recovery constitute the major sources of data of this study. Primary data is collected from the loanees’ to ascertain their perception about the functioning of the Rajasthan SFC. Profitability of the Rajasthan SFC and Maharashtra SFC is also presented in the study, for these purpose simple ratios are used.

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24 Dr. Vinod Batra, Development Banking In India, Printwell Publishers, New Delhi, 1986.
In this research article, entitled "Role of KSFC in the industrial development of the State", the role played by the KSFC in the industrialization of the State is analysed. Analysis of sanctions and disbursement of the loans in terms of regions and sectors is carried out. Similarly analysis of the amount of loan sanctioned and disbursed to Small-Scale sector and to non-small industries is also undertaken. For this purpose secondary data contained in the annual reports of KSFC from 1985-86 to 1995-96 is used.

Some of the important conclusions of the study are:
1) KSFC has registered phenomenal progress in terms of sanctions;
2) Sanctions to less developed regions are lower compared to more developed regions;
3) Share of backward districts is also less in the total sanctions as compared to non-backward districts.

Dr. A.T. Kuligod in his doctoral thesis entitled "The role of KSFC in rural Industrialisation of the State" submitted to Karnataka University, Dharwad, has analysed the role played by KSFC in the rural industrialisation of the State. This study is based both on the primary as well as secondary data. The primary data is collected from the beneficiaries with the help of prestructured questionnaire. Secondary data is collected from the published annual reports of KSFC. Statistical tools such as chi-square test, regression and correlation analysis, tabular methods etc., are used to analysis and interpret the data and to test the hypothesis.

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26 Dr. A.T. Kuligod, Role of KSFC. In Rural Industrialisation In Karnataka State, published Ph.D. thesis submitted to Karnataka University, Dharwad, 1997
The emphasis in the study is more on rural industrialization. The KSFC extends financial assistance to certain village and cottage industries and tiny units through “composite loan scheme”. Under this scheme both fixed capital and working capital is provided. The loans sanctioned under this scheme are zero margin loans. In 1988-89 the KSFC launched another programme aimed at rural industrialisation called rural industrialization programme. In the study the loans sanctioned and disbursed under these programmes are analysed.

The important conclusions of the study are that the KSFC is playing an important role in rural industrialisation of Karnataka State and rural industrialisation schemes of KSFC are strong in content and weak in implementation.

From the review of literature it is clear that much research is not carried out on the evaluation of performance of regional development banks viz., SFC's.

Moreover, whatever research that is carried out on this subject have a limited scope in the sense that they are only research articles and not full fledged research. Therefore they lack depth ness in analysis and coverage is also limited. Further no studies on the evaluation of performance of KSFC are noticed except one article published in Indian Journal of Commerce. Being a research article it suffers from narrow outlook and analysis in all its ramifications is not attempted in that article.

It is to plug this gap in the existing research the present work of research is undertaken.
**Need for study**

Development Finance Institutions are established both at the Central and at the State levels in India. The first development finance institute was established in the year 1948 called as the Industrial Development Finance Corporation of India. Subsequently other development financial institutions like ICICI (1955), LIC (1956), IDBI (1964), GIC (1971), IRCI (1971), EIBA (1982), SFC's (1951) were established.

These institutions are different from the commercial banks and other financial institutions, in the sense, that their job is not only to make credit available to small and medium scale industries but also to ensure balanced regional development and to undertake development activities.

Almost more than 50 years have elapsed after the establishment of DFI's in India. Whether the DFI's have contributed positively to the growth of SSI or not and whether these institutes have worked for achieving balanced regional development or not is not clear.

To answer to these questions satisfactorily it is necessary that an in-depth study of the performance of these institutes is studied. However, it is a herculean task for individual researcher like me to analyze the performance of all the DFI's due to paucity of time and resources. Hence, the researcher has confined himself to the in-depth study of the KSFC only.
Statement of the problem

The Government of India passed State Financial Corporations Act in 1951 as an enabling legislation to facilitate the States to establish State Financial Corporations in different States of India. The object behind this Act was to ensure effective economic federalism. These SFC's have to provide adequate credit facilities to small and medium scale industries and ensure balanced regional development and undertake development activities in the respective States where they are located.

Punjab State was the first State in the country to establish the SFC in the year 1951. Later on, other States also followed the suit. Karnataka State Financial Corporation was established in the year 1959.

More than 45 years have elapsed since the establishment of KSFC. It is fairly a long time that an evaluation of the performance of KSFC is undertaken to know its contribution to the growth of small and medium scale industries and to ensure balanced regional development of State.

Moreover, the review of literature also reveals research gaps in the field of SFC’s. Whatever handful of studies that are there relate to All India DFI’s and not to SFC’s (except some monograms and articles). Further no research worth the name came to my notice on the performance evaluation of KSFC.

In view of this the research scholar felt the need of studying the performance of KSFC in greater detail and in all its ramifications and hence the topic selected for the study is
“Performance Evaluation of State Financial Corporations’ In India – A Case Study of Karnataka State Financial Corporation”.

Objectives of the study

The present study is undertaken to achieve the following objectives:

1) To analyse the role played by SFC’s in India;
2) To analyse the role played by KSFC;
3) To analyse the organisational & managerial constraints hampering efficiency and effectiveness of the KSFC;
4) To assess the financial performance of KSFC through the ratios;
5) To analyse the perception of loanees’ about the functioning of KSFC;
6) To make suggestions in the light of the findings of the study.

Research methodology

Sources of data

The present study is based on both primary and secondary data. Primary data is obtained from the loanees’ by canvassing close ended questionnaire. Secondary data is collected mainly from the annual reports and operational statistics of KSFC, articles published in various Journals, reports and thesis published in the book form. Discussions are also held with the officers of the KSFC for obtaining the information.

Sample design

Random sampling method is used to select the respondents. The names and addresses of the loanees’ were obtained from the head office of the KSFC and the questionnaire was sent to randomly selected 150 loanees’ throughout the State by post.
However, only 114 entrepreneurs have responded by filling the questionnaire. Hence, the effective sample consists of 114 entrepreneurs who have borrowed loan from the KSFC.

**Statistical tools used**

Ratio analysis, percentage, tabular methods are extensively used to analyse and interpret the data. Charts are also used to make the data easily understandable.

**Chapter Scheme**

**Chapter – 1:** This chapter includes, Introduction – Rationale of Development Financial Institutes – Evolution of DIF’s in India – Review of literature – Need for study – Statement of the Problem – Objectives of the study – Research methodology – Chapter scheme.

**Chapter – 2:** This chapter is devoted to analyse the performance of all the SFC's in India. The issues dealt with in this chapter are: Introduction – Sanctions of SFC’s – percentage of disbursements to sanctions – sanctions and disbursements to small sector – product-wise assistance sanctioned and disbursed – Industry-wise assistance sanctioned and disbursed – State wise assistance sanctioned and disbursed – sector-wise assistance sanctioned, purpose-wise assistance sanctioned – size-wise assistance sanctioned.

**Chapter – 3:** Study Area.

**Chapter – 4:** Diverse organisational and managerial issue-areas of the KSFC form the subject matter of the third chapter. Subjects such as objectives, organisational set-up, its appropriateness, the managerial structure and culture including its suitability, centralisation, delegation etc., have been dealt in this chapter.

**Chapter – 5:** In this chapter an attempt has been made to critically examine the operational performance of KSFC. The issues taken up for analysis in this chapter are:

**Chapter – 6:** In chapter 6 Solvency, financial position and profitability of the KSFC are analysed. For this purpose various ratios are calculated and analysed.

**Chapter – 7:** Chapter 7 of the thesis is meant to analyse the perceptions of the loanees’ about the functioning of KSFC.

**Chapter – 8:** In chapter 8 summary and conclusions of the study are presented.

**Chapter – 9:** Suggestions and recommendations are presented in chapter – 9.