

## ROLE OF PROMOTIONAL AGENCIES IN INDUSTRIAL DEVELOPMENT: AN ANALYSIS IN THE CONTEXT OF KARNATAKA STATE FINANCIAL CORPORATION

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### Abstract:

*The KSFC is one among leading state financial corporation in the country. It is playing a vital role in industrial growth of our state in general and particularly in industrial backward regions like Hyderabad Karnataka region. Today, while the state economy is making rapid strides in the global market. Karnataka State Financial Corporation is moving in tandem. KSFC is fine tuned to fulfill the plans and aspirations of entrepreneurs by extending all possible assistance. Karnataka State Financial Corporation (KSFC) provides finance to industries. The SFCs were established with the purpose of promoting the growth of small, medium and large-scale industries in the country in order to augment the growth of industries and make the nation self-sufficient. They play a major role in the industrial development of regions. KSFC has been providing finance, technical know-how, etc., to the small and medium-scale industries in the states. The main objective of the study is to analyze the performance of Karnataka State Financial Corporation's (KSFC) in giving financial assistance to Small-Scale Industries (SSI) in liberalized era. The study is analytical in nature, throwing light on the financing pattern of SSI sector by KSFC, covering year-wise, type-wise, industry-wise, constitution-wise, and size-wise and district-wise credit sanctions and disbursements in Karnataka. KSFC has failed in its objective of balanced development, as most of the sanctions have been made only to a few districts of Karnataka and a small share of the total amount sanctioned has gone to the backward districts. Moreover, the percentage share of arrears is increasing and recovery ratio is decreasing year-by-year.*

*Over the last 50 years in the state of Karnataka. Karnataka state financial corporation is one of the robust and professionally managed state financial corporations. It has contributed most significant for the growth of small scale industries [SSIs] back word area development and promotion of first generation entrepreneurs. It's achievement in these areas is unparallel.*

### KEYWORDS:

KSFC, Industrial Development, Performance, Sanctions, Disbursement, Industrial Development.

### INTRODUCTION:

The Karnataka State Financial Corporation [KSFC] was established in the year 1959 under the state financial corporation Act 1951 for promoting industrial Entrepreneurship in the state of Karnataka. The KSFC is one among leading state financial corporation in the country. It is playing a vital role in industrial growth of our state in general and particularly in industrial backward regions like Hyderabad Karnataka region. Today, while the state economy is making rapid strides in the global market. Karnataka State Financial Corporation is moving in tandem. KSFC is fine tuned to fulfill the plans and aspirations of

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entrepreneurs by extending all possible assistance. Karnataka State Financial Corporation is one of the fast track term lending financial institutions in the country with assistance to over 1,60,645 units amounting to nearly Rs,9,101 crore out of which more than 50 percent is towards small scale industries.

Karnataka is one of the 28 states in India and emerging as an industrial super power of the country. The state has 30 districts and 176 taluks. Over the last 100 years the State has had the distinction of building a strong and vibrant industrial base, which combines the intrinsic and medium privately owned industries and a very wide and dispersed micro and small scale sector. Karnataka has demonstrated strength over a wide spectrum of sectors in industry and has outstanding examples of success in the world economy.

In the recent times Karnataka has emerged as the knowledge and technology capital of the country making rapid strides in the new economy as well. Karnataka is among the Top Five industrial states in the country. The achievements of Karnataka in promoting high-tech industries in key sectors like telecommunication, electronics, information technology, precision engineering, automobiles, readymade garments, bio-technology and food processing have been not worthy.

The strong base of large and medium scale industry established in Karnataka has given a wide scope for promotion of vibrant small scale sector in the state providing considerable employment opportunities to the people of Karnataka.

The study is analytical in nature, throwing light on the financing pattern of SSI sector by KSFC, covering year-wise, type-wise, industry-wise, constitution-wise, and size-wise and district-wise credit sanctions and disbursements in Karnataka. KSFC has failed in its objective of balanced development, as most of the sanctions have been made only to a few districts of Karnataka and a small share of the total amount sanctioned has gone to the backward districts. Moreover, the percentage share of arrears is increasing and recovery ratio is decreasing year-by-year.

Over the last 50 years in the state of Karnataka. Karnataka state financial corporation is one of the robust and professionally managed state financial corporations. It has contributed most significant for the growth of small scale industries [SSIs] backward area development and promotion of first generation entrepreneurs. It's achievement in these areas is unparalleled.

### **II.STATEMENT OF THE PROBLEM:**

Industrial development in India is at a very slow rate and the significant feature of it is, it's concentration in few regions/states in the country. Therefore, there are 'inter-state' and 'intra-state' disparities in industrial development. Many industries are concentrated in and around Bangalore.. In this context, the promotional institutions like KSFC are mainly engaged in promoting small and medium enterprises focusing on backward region. The present study thus intends to analysis the functioning of KSFC in Karnataka State in terms of promotion of enterprises and entrepreneurship in small and medium enterprises.

### **III.OBJECTIVES OF THE STUDY:**

The present study aims at examining the contribution of promotional agencies in the industrial development of Karnataka For this purpose following objectives have been outlined.

- 1)To examine the role of promotional agencies in industrial development focusing on KSFC.
- 2)To study about the contribution of KSFC's for industrial development in Karnataka state
- 3)To study the pattern industrial development in Karnataka.
- 4)To know the problems faced by the KSFC in financing industrial development.
- 5)To study the problems faced by entrepreneurs in operating the industries.
- 6)To offer suggestions based on analysis.

### **7) IV.HYPOTHESIS:**

On the basis of the Review of literature and objectives of this study, to proceed in a systematic way, following hypothesis are formed for testing to arrive at some definite conclusions they are:

- 1)Supply of credit by KSFC in relation to requirement is adequate.
- 2)KSFC has promoted development of small and medium enterprises in Consumption sector.
- 3)The recovery of loans is adequate.

### **V.KSFC AND INDUSTRIAL DEVELOPMENT IN KARNATAKA:**

Karnataka state financial corporation came into existence in 1959 to cater to the financial needs of Micro, small and medium enterprises in Karnataka. The corporation functions as a socio-economic change agent in the state and helps in the establishment and development of Micro, small and medium enterprises for the sustainable economic and industrial development of Karnataka. Today, with a total asset base of Rs.

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2300 crore. KSFC is one of the leading state financial corporations in the country.

Since its inception KSFC has extended financial assistance amounting to Rs. 910177.33 lakhs and has helped over 1.60 lakh enterprises to flourish in Karnataka. Though the head office is in Bangalore, KSFC has setup 7 zonal offices and 29 branch offices located in district headquarters to extend timely assistance to entrepreneurs all over the state. KSFC is the first state financial corporation to be awarded the ISO 9001-2000 certification.

KSFC offers schemes that are comprehensive covering key sectors. The schemes include s in below:

- Term loans
- Working capital term loan
- Corporate/short term loans
- Hire purchasing and leasing
- Merchant banking
- Opening of LCS
- Mutual fund retailing
- Public issue monitoring
- General and life insurance products
- Infrastructure development
- Loan syndication and escort services

KSFC has taken special care to ensure that its products and services are customer-centric with an inclusive approach to meet the needs of all the customers. With its empathizing attitude, KSFC has ensured that both old and new customers are extended quality service backed by a range of products. Schemes have been initiated from time to time and adopted to suit the requirements of the day. Specific lending norms, which offer special interest rebates, are available to facilities customers. New schemes are introduced for new entrepreneurs to meet working capital requirements, along with escort services to facilitate Government clearances. New entrepreneurs are guided and assisted by Business Development officers. Special schemes are implemented SC/ST entrepreneurs. KSFC has also joined hands with the government and quasi-government institutions for infrastructure development activities.

#### **The catalyst:**

KSFC's technical and need-based action has given impetus and injected new life into a number of software technology parks, call centers, pharmaceutical companies, engineering industries, health care, hospitality, textile industries and small enterprises like rice mills. KSFC has also introduced attractive schemes to promote recreation-clubs, tourist centers and convention hills. KSFC has been recognized as one of the first financial institutions to implement the MOFPI scheme for sanctioning grants and subsidies to the food processing sector.

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**Table-1.Performance of KSFC for the period 2001-2010**

Year	No	Sanction amount	Growth rate	Disbursement amount	Growth rate	% percentage of sanction to disbursement
2000-01	54	549.83	95.30	448.11	96.30	81.49
2001-02	50	548.22	99.70	479.36	106.97	87.43
2002-03	29	294.72	53.62	257.12	53.60	87.24
2003-04	37	473.18	160.75	445.06	173.30	94.17
2004-05	37	557.53	117.14	516.97	116.00	92.72
2005-06	40	579.20	103.88	510.02	98.69	88.08
2006-07	45	648.70	111.87	600.20	117.64	92.52
2007-08	37	586.50	90.41	500.00	83.30	82.25
2008-09	30	720.50	122.84	525.72	105.14	72.96
2009-10	27	861.00	119.50	397.83	75.67	46.20
2010-11	06	168.00	19.12	16.20	4.02	9.64
Total	392	5987.38	-	4697.11	-	78.45

Source: KSFC Operational Statistics 2006-07, 2007-08 and 2008-09

From the above table1, we get the clear picture of the 11 years performance of KSFC Gulbarga branch office year wise performance summary. During the year 2000-01 Gulbarga branch office has sanctioned the Rs. 549.83 lakhs and the disbursement was Rs. 448.11 loans 81.49 percent Rs. 598.22 and 294.72 sanctions are made by branch of office in the year 2001-02 and 2002-03 respectively. 2003-04 to 2006-07 the sanctions are at an in increasing trend in the year 2007-08 it was decreased 82.25 percent to 72.96 percent an the next financial year again branch office was sanctioned Rs. 720.50 loans and Rs. 861.00 lakhs in the year 2008-09 and 2009-10 respectively.

Table-2.KSFC year wise and industry wise performance 2004-05 to 2008-09

(Amount Rs. In Lakhs)

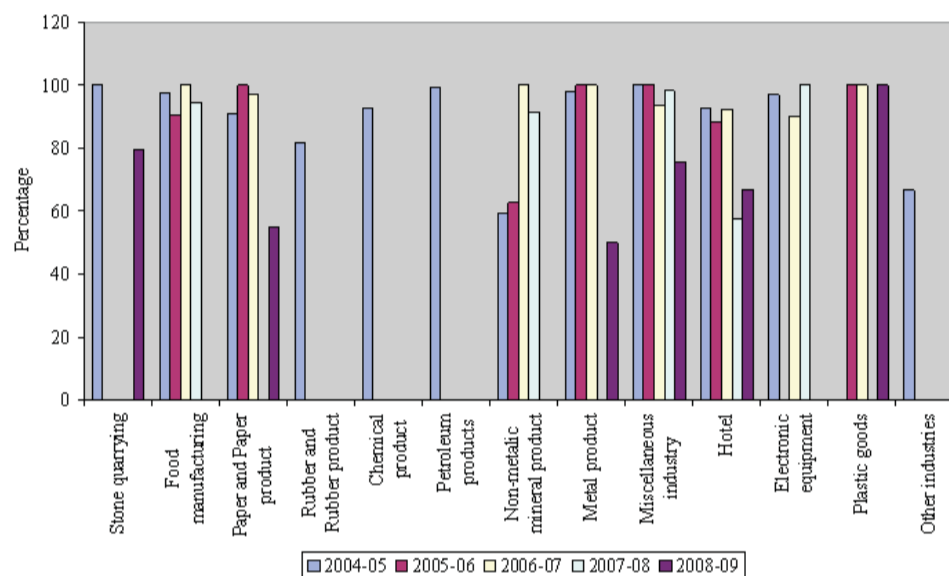
Industry	Yearwise sanctions and disbursement and sanctions to 2005														
	2004-05			2005-06			2006-07			2007-08			2008-09		
	San.	Disb.	%	San.	Disb.	%	San.	Disb.	%	San.	Disb.	%	San.	Disb.	%
Stone quarrying	14.94	14.94	100	-	-	-	16	-	-	-	-	-	78	62	79.48
Food processing	12.59	117.56	97.48	311	828	90.67	14	14	100	335	317	94.62	-	-	-
Paper and Paper product	4.50	4.10	91.11	2.50	2.50	100	280	272	97.14	-	-	-	397.90	219.43	55.11
Rubber and Rubber product	27	22	81.48	-	-	-	-	-	-	-	-	-	-	-	-
Chemical product	2.16	2	92.59	-	-	-	-	-	-	-	-	-	-	-	-
Petroleum products	24.30	24	99.17	-	-	-	-	-	-	-	-	-	-	-	-
Non-metallic mineral product	49.67	29.48	59.35	53.60	33.60	62.68	25	25	100	23	21	91.30	20	-	-
Metal product	24.50	24	97.95	7.50	7.50	100	2	2	100	-	-	-	8	4	50
Miscellaneous industry	93.21	93.20	99.96	7.50	7.50	100	75.20	70.20	93.35	28	27.50	98.21	22	16.62	75.54
Hotel	102	94.65	92.79	174.38	154.13	88.38	184	170	92.39	155	89	57.41	163	109.20	66.99
Electronic equipment	21.65	21	96.99	-	-	-	6	5	90	40	40	100	-	-	-
Plastic goods	5	-	-	10	10	100	2	2	100	-	-	-	40	40	100
Other industries	30	20	66.66	-	-	-	-	-	-	-	-	-	-	-	-
Total (year)	557.52	516.97	92.72	579.28	510.02	88.07	648	600	92.59	586.50	500	85.25	720.5	525.73	72.96

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Source: KSFC Operational Statistics 2006-07, 2007-08 and 2008-09

From the table it is observed that a large proportion of advances have gone to food processing and hotel industry this is observed in the sample. Therefore the hypothesis that KSFC has promoted small and medium enterprises in consumption sector is proved.

**KSFC yearwise and industry wise performance summary based on sanctions and disbursement during the last seven years 2004-05 to 2010-11**



The above table shows the KSFC Gulbarga branch office yearwise and industry wise sanctions and disbursements during the last five year. During the year 2004-05 continued to assist a wide range of industrial activities. In this year 11 industries are covered, branch office sanctioned the Rs. 557.52 lakhs the amount disbursed was Rs. 516.97 (92.72 percent) four major industries got the highest assistance in this year, namely food manufacturing and processing units are got the Rs. 120.59 lakhs 21.62 percent in the total sanctions, miscellaneous industry got the Rs. 93.21 lakh (18.30 percent) in the total sanctions, hotel industry got the Rs. 102 lakhs (19 percent) remaining amount was distributed other units like rubber, chemical, electronics equipments, plastic goods and other industries.

In 2005-06 amount sanctioned was increased Rs. 579.08 lakhs out of this Rs. 510.02 was disbursed in this year only 7 major industries got the assistance from branch office, here also food manufacturing industry got the Rs. 311 lakhs 53.71 percent in total sanctions and second place hotel industry got the 174.38 lakhs 30.11 percent remaining amount distributed by other four industries. Rs. 648, Rs. 586.50 and Rs. 720.5 lakhs sanctioned in the year 2006-07, 2007-08 and 2008-09 respectively all these three year here also the above situation terms to be continued.

**KSFC statistical highlights-past and present:  
Socio-Economic Contribution:**

The socio-economic contribution of KSFC is significant. KSFC has assisted 75,549 cases with an amount of Rs. 2,87,501.15 lakhs in backward areas, 27,160 women entrepreneurs with Rs. 1,39,695.14 lakhs and 81,240 first generation enterprises with Rs. 4,22,500.01 lakhs. The assistance to SSI sectors is 1,04,518 cases with an amount Rs. 4,72,192.50 lakhs.

**Year-wise sanctions:**

In the financial year 1998-99, the amount sanctioned was 25,37,195.96 lakhs. Sanctions dropped to Rs. 30,277.06 lakhs in 2003-04. However, in 2007-08, the loans sanctioned grew to Rs. 36,815.07 lakhs. In the year 2008-09 the loans sanctioned significantly increased to Rs. 56,524.31 lakhs.

**Year-wise Recovery:**

In 1998-99, the recovery figure was Rs. 67,180.89 lakhs, in 2003-04, the amount recovered was

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Rs. 56,242.93 lakhs and 2007-08. It was Rs. 56,114.02 lakhs. During the year 2008-09, the recovery made was Rs. 50,122.44 lakhs.

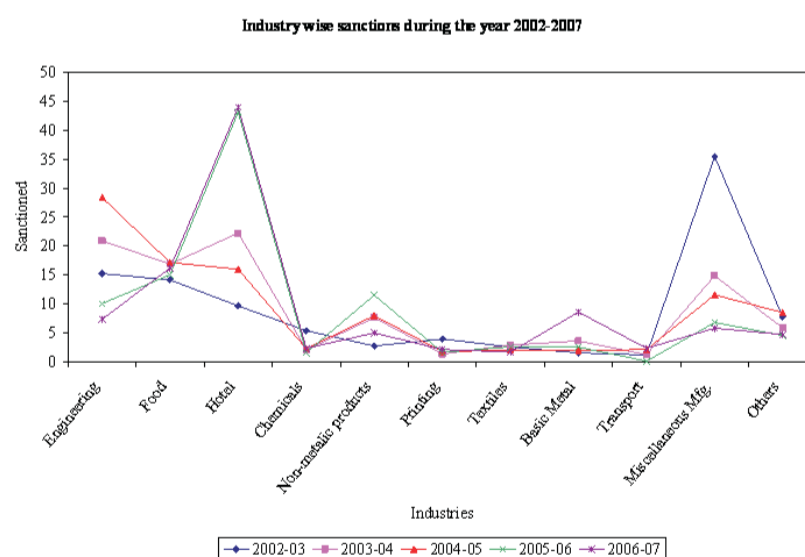
**Financial Results:**

In the year 2005-06, the income of KSFC was Rs. 21,016.06 lakhs with expenditure of Rs. 20,450.89 lakhs. The net profit for that year was Rs. 565.17 lakhs. The income for the year 2006-07 was Rs. 19,571.40 lakhs with the expenditure of Rs. 18,231.84 lakhs. The net profit was Rs. 1,295.37 lakhs. The income for the year 2007-08 was Rs. 26,521.47 lakhs with the expenditure of Rs. 20,191.77 lakhs. The net profit was Rs. 6,216.74 expenditure of Rs. 22,320.15 lakhs resulting in operating profit of Rs. 825.16 lakhs.

**Table-3**  
**Industry wise sanctions during the year 2002-2007**

Sl. No.	Industry	Year and Percentage to the Total				
		2002-03	2003-04	2004-05	2005-06	2006-07
01.	Engineering	50.77 (15.25)	50.61 (20.93)	89.07 (28.36)	41.57 (10.07)	27.27 (7.40)
02.	Food	47.23 (14.18)	40.85 (16.89)	54.38 (17.19)	62.11 (15.05)	59.07 (16.21)
03.	Hotel	32.22 (9.67)	53.79 (22.24)	50.63 (16.01)	177.66 (43.06)	261.54 (43.87)
04.	Chemicals	17.98 (5.40)	5.16 (2.13)	7.37 (2.33)	6.77 (1.64)	8.20 (2.39)
05.	Non-metallic products	9.34 (2.80)	18.58 (7.68)	25.31 (8.00)	47.62 (11.54)	18.42 (5.03)
06.	Printing	13.27 (3.98)	3.38 (1.39)	5.84 (1.84)	7.05 (1.70)	7.37 (2.19)
07.	Textiles	8.71 (2.62)	7.11 (2.94)	6.64 (2.09)	10.91 (2.64)	6.45 (1.75)
08.	Basic Metal	5.32 (1.60)	8.88 (3.66)	6.34 (2.05)	10.76 (2.60)	31.84 (8.64)
09.	Transport	4.12 (1.24)	3.16 (1.30)	6.86 (2.16)	0.76 (0.18)	8.82 (2.39)
10.	Miscellaneous Mfg.	118.09 (35.46)	36.02 (14.89)	36.64 (11.58)	28.20 (6.83)	21.55 (5.85)
11.	Others	25.99 (7.80)	14.22 (5.88)	27.12 (8.57)	18.97 (4.59)	17.62 (4.78)
	Total	333.04	241.77	316.20	412.53	

Source: KSFC Operational Statistics 2009



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**Industry-wise term-lending:**

As a term lending agency, it is the duty of the corporation to see that all the potential industries coming under its jurisdiction are provided with assistance corporation has been assisting a wide ranging industry groups since its inception. Especially from the last six years a lot of balance has been achieved in sanctioning assistance to different industries in the state.

The corporation during the year 2000-01, continued to assist a wide range of industrial activities. Six major groups of industries covered are transport Rs. 31.84 crores (8.64 percent), food based industries Rs. 97.07 (16.21). Engineering industry during 2005-06 and 2006-07 received 10.07 percent, 7.40 percent respectively. Non-metallic products in 2005-06 received 11.54 percent, 5.03 percent respectively.

**Table-4**  
**Scheme-wise assistance from 2004-05 to 2008-09 and as on 31st March 2009**

Sl. No.	Scheme/ Promoters class	2004-05		2005-06		2006-07		2007-08		2008-09		As on 31-03-2009	
		No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
1	2	3	4	5	6	7	8	9	10	11	12	13	14
01.	Single window	104	711.55	117	901.32	237	2530.45	229	2407.41	256	4193.33	10280	55569.25
02.	Credit linked capital subsidy	17	300.50	148	4039.01	172	5080.26	7	125.00	43	1701.20	387	11245.97
03.	Privileged entrepreneurs	-	-	-	-	-	-	70	1236.50	124	2141.41	194	3377.90
04.	Nursing homes / Hospitals	8	668.75	3	411.00	24	907.30	22	583.80	20	993.90	662	10378.65
05.	Electro medical equipment	-	-	-	-	4	20.20	7	76.00	5	40.50	737	2530.79
06.	Mahilaudaymani di	12	90.56	9	63.68	2	12.08	-	-	-	-	1424	4744.53
07.	Technology development and modernization fund	251	6375.4031	1008.07	-	-	-	-	-	-	-	706	22631.29
08.	National equity fund	497	5903.30	478	7586.44	50	774.00	-	-	-	-	8724	54668.16
09.	Technology up-gradation fund	17	416.48	14	534.92	4	190.00	-	-	10	274.50	81	3074.85
10.	Assistance for DMP Maint. & Construction of funds	3	77.25	4	49.50	5	63.55	1	13.50	1	40.00	253	2618.27
11.	Scheduled castes Assisted	23	306.47	9	108.33	16	268.76	91	1691.33	122	2773.77	16500	19726.11
12.	Scheduled Tribes Assisted	8	93.96	5	151.50	7	120.30	11	192.55	17	369.46	1943	3448.82
13.	Backward communities	43	606.93	44	895.25	35	557.94	28	484.40	46	1121.25	21566	25001.17
14.	Minority communities	158	2155.99	121	2613.86	136	3667.51	118	3553.60	129	3038.30	17981	64413.81
15.	Women entrepreneurs	283	6216.89	301	10265.49	292	9707.47	292	10597.00	367	16012.22	27160	139695.14
16.	Tourism related activity	-	-	1	5.00	1	15.00	-	-	-	-	1065	9621.05



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Source: KSFC Operational Statistics 2006, 2007, 2008 and 2009

Hotel and restaurants during the year 2005-06 and 2006-07 received highest percentage 43.06 and 43.87 respectively. Textile industry received Rs. 10.91 crores (2.60) and 6.45 (1.75 percent) in the year 2005-06, 2006-07. Chemical industry during 2005-06, 2006-07 Rs. 6.77 crores 1.66 percent and Rs. 8.20 crores 2.89 percent.

The remaining amount of Rs. 118.077 crore to the extent of 6 percent was sanctioned to miscellaneous manufacturing activities covering electronics, metallic, hospitals and nursing homes and others during 2005-06.

Modern industries are more favoured than the traditional industries in the recent years in sanction as well as disbursement of loans.

Above Table deals with the scheme wise assistance of loans last five year by the corporation KSFC in the state. In the year 2004-05 the trend in the assistance under various schemes are sanctioned Rs. 711.55 lakhs to 104 beneficiaries benefited in the single window scheme and Rs. 90.56 lakhs sanctioned to Mahila Udaymanidi scheme and Rs. 306.97 lakhs sanctioned to scheduled castes, Rs. 93.96 lakhs was sanctioned to scheduled tribes. The technology development and modernization sector got the highest assistance Rs. 6375.40 to 251 beneficiaries.

In the year 2005-06 under the various special schemes, the highest amount was sanctioned under women entrepreneurs scheme (Rs. 10265.49 lakhs) followed by National equality scheme Rs. 7586.44 and minority communities scheme Rs. 2613.86. During the year 2005-06 Tourism related activity scheme got the lowest Rs. 500 lakhs assistance was sanctioned.

In the year 2006-07 apart from the schemes already under operation; new schemes like nursing home, women entrepreneurs scheme, electro-medical equipment scheme, integrated term loan scheme and quality control equipment scheme were also put into operation.

In the year 2007-08, 2008-09 the highest amount was sanctioned under women entrepreneurs scheme Rs. 10597.00 and Rs. 16012.22 respectively and assistance for development and construction of roads scheme was got the lowest assistance Rs. 13.50 lakhs, Rs. 40.00 respectively and other schemes like single window scheme Rs. 2407.41, Rs. 4193.33, electro-medical equipment Rs. 76.00 lakh, Rs. 40.50 lakhs respectively and Mahila Udaymanidi scheme has not got the assistance during in this year gives details of assistance to the small-scale and Tiny sector by the corporation in the last 9 years.

**Table-5**  
**Loan assistance to small scale and tiny sector from 2000-01 to 2008-09**

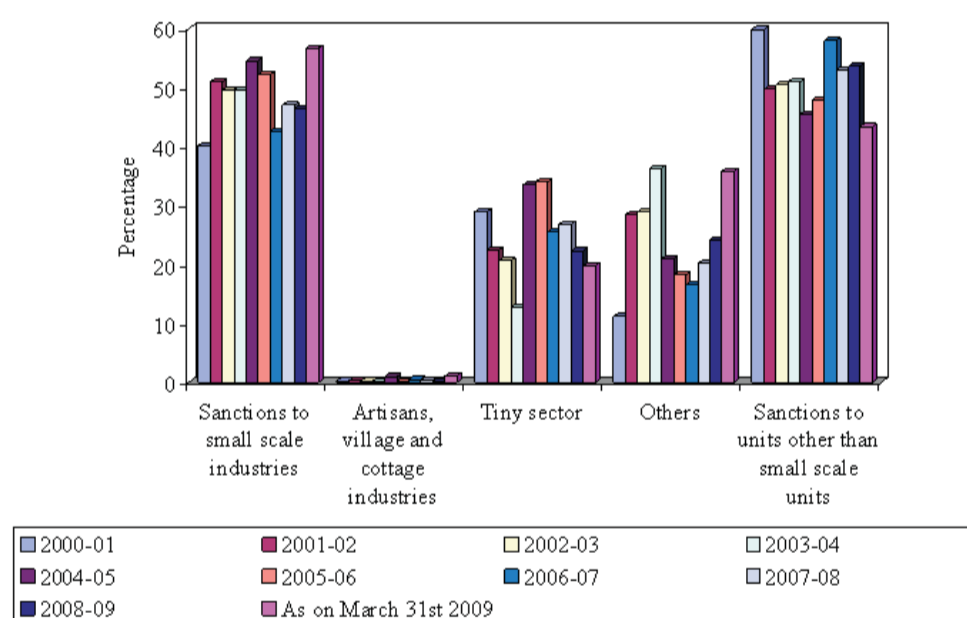
Sl. No.	Particulars	2000-01		2001-02		2002-03		2003-04		2004-05		2005-06	
		No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
1	2	3	4	5	6	7	8	9	10	11	12	13	14
01.	Sanctions	2662	42292.9	1621	30255.74	1345	33303.98	1307	29969.76	1242	24175.95	1161	31620.50
02.	Sanctions to small scale industries	1461	16982.20 (40.15)	919	15408.44 (50.92)	806	16505.05 (49.56)	774	14703.7 (49.61)	779	13179.19 (54.51)	788	16500.26 (52.18)
a)	Artisans, village and cottage industries	2	10.01 (0.23)	19	8.16 (0.28)	19	7.73 (0.23)	10	4.03 (0.14)	7	2.53 (0.95)	9	3.20 (0.10)
b)	Tiny sector	1376	12241.7 (28.94)	618	6790.63 (22.44)	543	6882.22 (20.66)	333	3819.48 (12.74)	64	8108.19 (33.53)	662	10733.06 (33.94)
c)	Others	83	4731.12 (11.18)	282	8609.20 (28.45)	244	9615.10 (28.87)	431	10879.56 (36.30)	123	5068.17 (20.96)	117	5764 (18.22)
03.	Sanctions to units other than small scale units	1201	25309.89 (59.84)	702	14847.30 (49.72)	539	16798.93 (50.44)	533	15266.69 (50.94)	463	10946.76 (45.48)	373	15120.24 (47.81)
	Loan sanction	2662	42292.9	1621	30255.74	1345	33303.98	1307	29969.76	1242	24175.95	1161	31620.50

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Sl. No.	Particulars	2006-07		2007-08		2008-09		As on March 31 <sup>st</sup> 2009	
		No.	Amount	No.	Amount	No.	Amount	No.	Amount
01.	Sanctions	1326	42452.94	1195	36815.07	1420	56524.31	140847	705440.41
02.	Sanctions to small scale industries	875	17852.60 (42.52)	795	17305.07 (47.00)	923	26250.02 (46.44)	91736	399621.10 (56.64)
a)	Artisans, village and cottage industries	6	2.10 (0.49)	3	1.15 (0.40)	2	0.09 (0.15)	42847	7575.76 (1.07)
b)	Tiny sector	721	10828.67 (25.50)	634	9884.57 (26.84)	707	12597.47 (22.28)	25671	139448.40 (19.76)
c)	Others	148	7021.83 (16.54)	158	7419.35 (20.15)	214	13652.46 (24.15)	23218	252596.94 (35.80)
03.	Sanctions to units other than small scale units	451	24600.34 (57.94)	400	19510 (52.99)	497	30274.29 (53.55)	49111	305819.31 (43.35)
	Loan sanction	1326	42452.94	1195	36815.07	1420	56524.31	140847	705440.41

Source: KSFC Operational Statistics 2008-2009

Loan assistance to small scale and tiny sector from 2000-01 to 2008-09



Out of the total loan assistance sanctioned by the corporation in the state, Rs. 16982.20 (40.15 percent in 2000-01, 50.92 percent in 2001-02, 49.56 in 2002-03, 49.61 percent in 2003-04, 54.51 percent in 2004-05, 52.18 percent in 2005-06 has gone to the small-scale sector which consisted of artisans village and cottage industries, tiny industries and other small-scale industries by looking at the trend in assistance to the small-scale sector, we can understand the corporation is attaching a lot of importance to small-scale industries. Now the corporation has reached a stage (still it is to be enhanced) with as much as 75 percent of its assistance being given to the small-scale sector and remaining 25 percent to the other medium-scale units. The corporation, being the regional development bank with an objective of assisting small and medium-scale units, is bound to channel more and more assistance to the small-scale sector. The cumulative assistance to the small-scale sector since inception upto 31st March 2005 has reached Rs. 1620 Lakhs (52.20 percent of the total cumulative assistance), which exhibits the corporations role in the development of this sector. But, compared to the percentage share of small-scale sector in the total

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assistance by the SFCS at National level the corporation's assistance to small scale sector is not substantial.

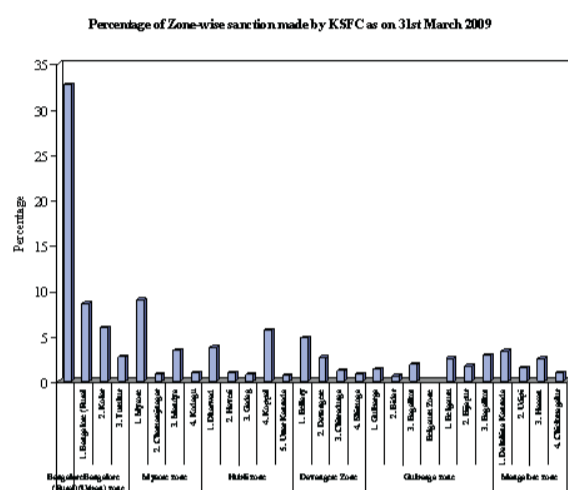


Table-6  
District-wise/Zone-wise sanctions made by KSFC as on 31<sup>st</sup> March 2009

Sl. No.	Zone/Districts	No.	Amount	Percentage of loans (%)
I.	Bangalore (Rural)	258	17521.07	32.68
II.	Bangalore (Urban) zone			
	1. Bangalore (Rural)	66	4586.95	8.55
	2. Kolar	77	3171.80	5.91
	3. Tumkur	71	1468.50	2.73
III.	Mysore zone			
	1. Mysore	80	4821.60	8.99
	2. Chamarajnagar	21	405.00	0.75
	3. Mandya	85	1851.50	3.42
	4. Kodagu	20	501.50	0.93
IV.	Hubli zone			
	1. Dharwad	57	2003.25	3.73
	2. Haveri	28	503.61	0.93
	3. Gadag	23	414.50	0.77
	4. Koppal	64	3016.25	5.62
	5. Uttar Kannada	17	349.90	0.65
V.	Davangere Zone			
	1. Bellary	49	2569.00	4.79
	2. Davangere	34	1400.80	2.61
	3. Chitradurga	43	639.52	1.19
	4. Shimoga	48	437.57	0.81
VI.	Gulbarga zone			
	1. Gulbarga	29	730.50	1.36
	2. Bidar	11	319.00	0.59
	3. Bagalkot	31	1002.25	1.86
VII.	Belgaum Zone			
	1. Belgaum	35	1364.80	2.54
	2. Bijapur	34	911.13	1.69
	3. Bagalkot	40	1542.15	2.87
VIII.	Mangalore zone			
	1. Dakshina Kannada	70	1784.90	3.32
	2. Udipi	27	811.95	1.51
	3. Hassan	63	1341.00	2.50
	4. Chickmagalur	39	504.15	0.94
	Total	199	4442.00	8.28
	Grand Total :	1420	53610.16	100

Source: KSFC Operational Statistics 2009.

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**District-wise/zone wise classification of loan sanctioned as on 31st March 2009:**

Table-5.4 shows the zone wise sanctions made during the year 2009. Bangalore district/zone loan sanctioned amounted Rs. 9227.25 crores it is the maximum assistance grabbed by corporation. It was followed by Mysore zone has got the 7579.60 crores respectively and Hubli zone, 16287.51 crores, Davangere zone Rs. 2681.55, Gulbarga zone Rs. 2051.75, Belgaum zone 3818.08 and Mangalore zone 4442.00 respectively. In the above zonal sanctions Gulbarga zone was got the loan sanction amount from the corporation.

An examination of the table-5.5 (Size-wise classification of loans) reveals that during the year 2007-08, 63.44 percent of the total sanctions were in the range of Rs. Above 45 lakhs and the number of beneficiaries in that range were 335, in the same year, the lowest share i.e., 0.68 percent of the total assistance was sanctioned in the range of below Rs. 2 to 5.00 lakhs. The total amount sanctioned in these range was Rs. 247.93 lakhs which was shared by 43 beneficiaries. As far as number of beneficiaries are concerned below Rs. 2.00-5.00 lakhs range stood first having sanctioned loans to 43 persons in the year 2007-08.

In the year 2008-09 for 284 beneficiaries in the range of above Rs. 15 lakhs an amount of Rs. 36820.55 lakhs was sanctioned which accounted for 65.15 percent of the total assistance in that year and in the range of Rs. 0.50 to Rs. 2.00 lakhs 12 beneficiaries benefited with Rs. 2550 lakhs which was 0.05 percent of the total assistance sanctioned in that year.

In the year since inception up to 31/3/2009 the lowest amount of Rs. 13845.86 loans was sanctioned in the range of Rs. 0.50 lakhs and the highest amount of loan sanctioned in the range of above Rs. 45 lakh.

**Table-7**  
**Size-wise analysis of loan sanctions (gross) in 2007-08; 2008-09**  
**(Amount Rs. In lakhs)**

Sl. No.	Particulars	2007-08		2008-09		As on March 31 <sup>st</sup> 2009	
		No.	Amount	No.	Amount	No.	Amount
1.	UptoRs. 0.50 lakhs	-	-	-	-	64288 (63055)	13845.86 (13426.70)
2.	Rs. 0.50-Rs. 2.00 lakhs	-	-	12 (9)	25.50 (19.50)	34241 (32757)	455449.55 (43340.12)
3.	Rs. 2.00-Rs. 5.00 lakhs	43 (38)	247.93 (222.93)	121 (97)	604.05 (498.35)	27140 (25007)	92211.89 (84769.10)
4.	Rs. 5.00-Rs. 7.50 lakhs	49 (37)	37.61 (280.66)	78 (64)	535.45 (446.05)	6557 (5647)	41616.61 (35609.63)
5.	Rs. 7.50-Rs. 10 lakhs	108 (79)	926.62 (667.32)	213 (166)	2110.51 (1660.20)	5913 (4772)	50596.19 (40459.47)
6.	Rs. 10 lakhs-Rs. 20.00 lakhs	245 (177)	3229.35 (2296.75)	383 (263)	6355.99 (4389.76)	8608 (6567)	125115.52 (90116.44)
7.	Rs. 20.00- Rs. 30 lakhs	177 (135)	2985.95 (2226.15)	208 (149)	5628.86 (4096.81)	4632 (3201)	103370.12 (67879.30)
8.	Rs. 30.00-Rs. 45 lakhs	238 (154)	5713.93 (3483.93)	121 (77)	4443.40 (2822.30)	2481 (1699)	71085.12 (47125.07)
9.	Above Rs. 45 lakhs	335 (204)	23353.68 (8331.93)	284 (126)	36820.55 (12510.15)	3811 (2175)	296130.64 (122720.08)
	Total	1195 (824)	36815.07 (17509.67)	1420 (951)	56524.31 (26443.12)	157671 (144880)	839421.50 (545445.91)

Source: KSFC Operational Statistics 2009

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During the two year period under study, the quantum of sanctions in different ranges have changed continuously. The point to be noted here is the time passed more and more amount was being sanctioned in the higher range which indicates that even in the small-scale sector, projects having more investment are being promoted.

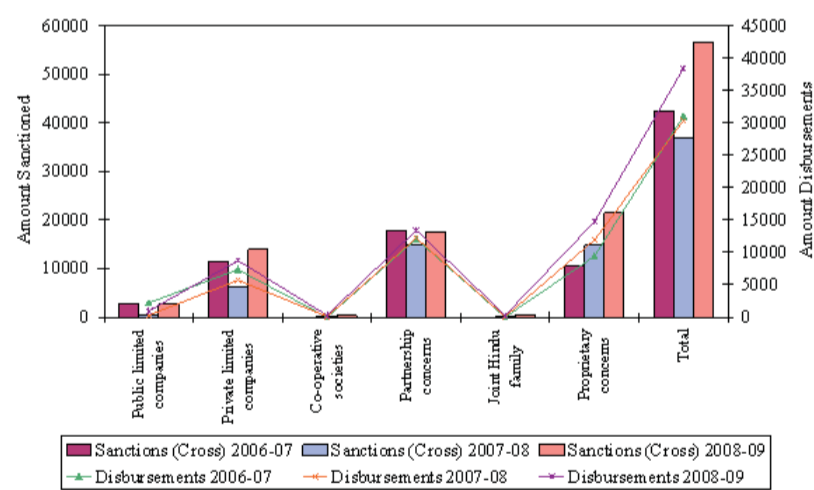
**Table-8**  
**Constitutions-wise loans sanctioned and disturbed in the last three years in the state by the KSFC**  
**(Amount Rs. In lakhs)**

Sl. No.	Type of constitution	Sanctions (Cross)						Disbursements		
		2006-07		2007-08		2008-09		2006-07	2007-08	2008-09
		No.	Amount	No.	Amount	No.	Amount	Amount	Amount	Amount
1.	Public limited companies	3	2708.00	3	575.00	11	2735.50	2234.38	297.72	960.35
2.	Private limited companies	109	11541.38	48	6179.21	76	13938.05	7337.79	5697.56	8744.30
3.	Co-operative societies	-	-	6	182.50	8	304.50	-	101.35	301.65
4.	Partnership concerns	586	17759.07	420	14962.30	485	17639.73	12067.85	12218.21	13408.63
5.	Joint Hindu family	1	10	3	150.00	4	488.00	10	96.86	265.24
6.	Proprietary concerns	627	10434.09	715	14766.06	836	21420.53	9389.28	11899.12	14711.38
	Total	1326	42452.94	1195	36815.07	1420	56524.31	31039.30	30312.62	38391.55

Source: KSFC Operational Statistics 2009

Above Table gives an idea of the constitution-wise sanctions and disbursements of loan amount in the last five years period from 2004-05 to 2008-09 in the state in the case of sanctions in all the five years i.e., 2004-05 to 2008-09. The public limited companies received lowest portion of the total assistance sanctioned i.e., 6.38, 1.57, 4.84, 7.20 and 2.51 percents in the year 2004-05, 2005-06, 2006-07, 2007-08 and 2008-09 respectively. Private limited concerns received around 30 percent share in the sanctions in the period of five years. Third category of constitution receiving the highest amount of sanctions was partnership firms which received between 41.84 percent to 40.31 percent in the period of five years. Though co-operative societies and joint-Hindu families shares was negligible share of the total sanctions. It can be seen from the table that more the 90% percent of the total sanctions in each year has gone to only private limited companies, partnership firms and proprietary concerns.

**Constitutions-wise loans sanctioned and disturbed in the last three years in the state by the KSFC**



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The second part of the Table-8 gives the details of the disbursement of loan amounts to different categories of persons the basis of their constitution. Here also, the concern and partnership firms were in the second and third place respectively. During all the five years i.e., 2004-05 to 2008-09 the private limited companies, partnership firms and proprietary concerns collectively accounted for more than 90% percent of the total disbursed amount of loan assistance, while the amount disbursed to co-operative societies and joint Hindu families was negligible. It was 6.38, 1.57, 4.84, 7.20 and 2.51 percents in the year 2004-05 to 2008-09 respectively in the case of public limited companies.

**Table-9**  
**Purpose-wise classification of sanctions during the last five years**  
**(Amount Rs. In lakhs)**

Sl. No.	Particulars	2004-05		2005-06		2006-07		2007-08		2008-09	
		No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
1	2	3	4	5	6	7	8	9	10	11	12
01.	New projects	483	10194.10	516	1636.19	559	24822.55	510	21985.94	543	32624.65
02.	Rehabilitation	-	-	-	-	-	-	-	-	1	68.00
03.	Others (Expansion, modernization isolation etc.)	759	13981.85	645	15314.31	767	17630.39	685	14829.13	876	23831.66
	Total	1242	24175.95	1161	31620.50	1326	42452.94	1195	36815.07	1420	56524.31

Source: KSFC Operational Statistics 2008-09.

Above Table gives purpose-wise data relating to the sanction of loans in the last five years in the state. Out of the total assistance sanctioned new projects received more than 42.17 percent in the year 2005-04 51.57 percent and 2005-06, 2006-07 and 2007-08 the maximum portion of the loans sanctioned were directed towards new projects in the year 2008-09 it got the 57.72 percent of the total sanctions. 2004-05 to 2007-08 the rehabilitation purpose the corporation was not sanction the any loans, but 2008-09 0.12 percent sanction out of the total sanctions.

For modernization and other purpose, loans sanctioned were around percent in all the five years except the terminal year 2004-05 during which modernization and others received in the share of more than 57.84 percent and 2005-06, 2006-07, 2007-08 and 2008-09. It got the 48.44 percent, 41.53 percent, 40.28 percent and 42.17 percent respectively.

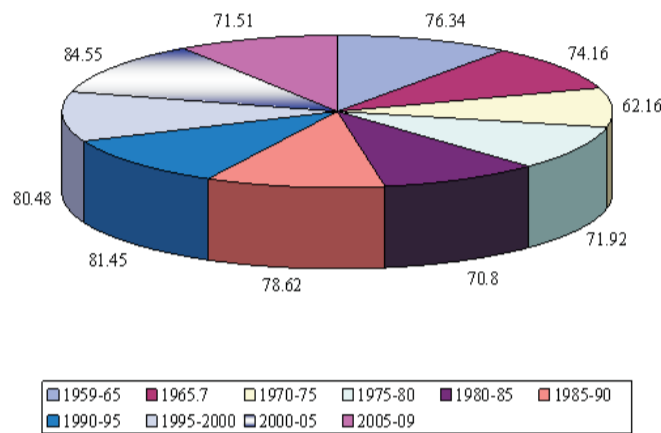
**Table-10**  
**The performance of KSFC over the last 50 years**  
**(Amount Rs. In Crores)**

Period	Sanctions	Disbursements	Percentage
1959-65	3.34	2.25	76.34
1965.70	7.02	5.34	74.16
1970-75	33.54	20.85	62.16
1975-80	59.34	42.68	71.92
1980-85	231.35	163.8	70.80
1985-90	679.85	534.36	78.62
1990-95	1816.72	1479.86	81.45
1995-2000	2968.23	2384.11	80.48
2000-05	1630.52	1378.61	84.55
2005-09	1674.52	1197.3	71.51
Total	9104.53	7209.16	79.19

Source: KSFC Operational Statistics 2009.

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The performance of KSFC over the last 50 years



The above Table shows the performance of KSFC over the last 50 years in the country in 1959 to 65 KSFCs was sanctioned Rs. 3.34 crores (76.34) percent and in the financial year 1965 to 70 it was increases 7.02 crores and 33.54 crores, 59.34 crores, 231.35 crores and 679.85 crores are sanctioned 1970-75, 1975-80, 1980-85 and 1985 to 90 respectively. After 1990-95 KSFC was sanctioned high amount i.e., Rs. 1816.72, 81.95 percent and Rs. 29968.23, 1630.52, 1674.12 in the financial year of 1995-2000, 2005-05 and 2005-09 respectively.

**VI. SUMMARY, FINDINGS, SUGGESTIONS AND CONCLUSIONS:**

The KSFC in one of the leading financial institution in the country acting as a catalyst for industrial growth in Karnataka. Study attempts to assess the KSFC contribution to the industrial development in Karnataka State.

The concentration tend in industrial development continues to exist in the state, yet there is some change observed in recent years due to the implementation of industrial dispersal policies in the form of fiscal and financial concessions.

**The following are the important findings drawn from the study:**

1) KSFC completed 50 years of operation. It has contributed significantly for the growth of the economy of the state in particular country in general. It has created a strong employment base during 1970s 1980s 1990s and 2000. Till now it has created employment directly to more than 30 lakhs people indirectly about 50 lakhs people in the state.

2) The study reveals that a considerable industrial growth rate is observed in food processing and hotel industry and only a moderate growth in capital goods industries. Though, 2001-02 to 2008-09 is a very short period to analyse the impact study of industrial growth but it is observed that the KSFC is making headway to bring a favorable impact on the industrial growth of Karnataka state

**3) Socio-economic contribution:**

The study reveals that the socio-economic contribution of KSFC is significant. KSFC has assisted 75.549 cases with an amount of Rs. 2,87,501.15 lakhs in backward areas, 27.160 women entrepreneurs with Rs. 1.39,695.14 lakhs and and 81.240 first generation enterprises with Rs. 4,22,500.01 lakhs. The assistance to SSI sectors is 1, 04,518 cases with an amount Rs. 4, 72,192.50 lakhs.

**4) The catalyst:**

The study reveals that the KSFC's technical and need-based action has given impetus and injected new life into a number of software technology parks, call centers, pharmaceutical companies, engineering industries, health care, hospitality, textile industries and small enterprises like rice mills. KSFC has also introduced attractive schemes to promote recreation-clubs, tourist centers and convention hills. KSFC has been recognized as one of the first financial institutions to implement the MOFPI scheme for sanctioning grants and subsidies to the food processing sector.

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5) The study reveals that the KSFC has taken special care to ensure that its products and services are customer-centric with an inclusive approach to meet the needs of all the customers. With its empathizing attitude, KSFC has ensured that both old and new customers are extended quality service backed by a range of products. Schemes have been initiated from time to time and adopted to suit the requirements of the day. Specific lending norms, which offer special interest rebates, are available to facilities customers

6) The impact of industrial growth on employment generation has been measured by two important variables, namely volume of investment and number of units. In the case of small scale industrial units, it is observed that at the state level the volume of investment and the growth rate of industrial units are showing an upward trend during 2001-02. But the increases in the number of industrial units are not proportionate to the increase in the volume of investment. This clearly indicates that the small scale industries units are becoming more and more capital intensive with the help of KSFC assistance.

7) The study reveals that the KSFC performance is impressive during the last five years. The average growth rate in sanction is almost 55% percent.

#### SUGGESTIONS FOR THE POLICY FORMATIONS:

A humble effort has been made to provide a few suggestions to KSFC in the following ways.

- 1)KSFC should reduce the time required to approve the loan sanction period.
- 2)In 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.
- 3)Targets should be set to the recovery officers and a special incentive should be provided to those officers who achieve their targets.
- 4)The organization structure should be modified and surplus staff should be downsized so that overhead costs can be reduced.
- 5)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. So that projects more viable seek assistance from KSFC.
- 6)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.
- 7)Along with this afford should be made to determine the character, capacity, condition, collateral and capital of customer to know the credit worthness, wine appraising the proposal.
- 8)Recovery officers must be thoroughly trained through 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.
- 9)Timely review/renewal of borrowed accounts be given prominence so that these are undertaken before expiry of their accounts.
- 10)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, lack of owners state or no stake or failure to bring in the promoter contribution must be verified, somehow they manages further time being. Hence care must be taken while selecting a borrower.

#### CONCLUSION:

Karnataka State Financial Corporation (KSFC) provides finance to industries. The SFCs were established with the purpose of promoting the growth of small, medium and large-scale industries in the country in order to augment the growth of industries and make the nation self-sufficient. They play a major role in the industrial development of regions. KSFC has been providing finance, technical know-how, etc., to the small and medium-scale industries in the states. The main objective of the study is to analyze the performance of Karnataka State Financial Corporation's (KSFC) in giving financial assistance to Small-Scale Industries (SSI) in liberalized era. The study is analytical in nature, throwing light on the financing pattern of SSI sector by KSFC, covering year-wise, type-wise, industry-wise, constitution-wise, and size-wise and district-wise credit sanctions and disbursements in Karnataka. KSFC has failed in its objective of balanced development, as most of the sanctions have been made only to a few districts of Karnataka and a small share of the total amount sanctioned has gone to the backward districts. Moreover, the percentage share of arrears is increasing and recovery ratio is decreasing year-by-year.

However, KSFC has helped to promote industrial development in Karnataka State. The focus is on agro-processing and hotels and restaurants. i.e, service sector which are the growing sectors in State. But it is observed that KSFC is more engaged in advancing loan than extending technical support to industries in the State. The support in the field of market studies and product identification is also essential as the entrepreneurs in the district lack knowledge about these crucial issues.

There is also a need to carry out further research studies intensively in analyzing the various



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factors affecting industrial growth in the State which may help to develop an appropriate strategy to promote industrial development in the State.

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