CHAPTER I
CHAPTER I

INTRODUCTION

One of the basic aims of development planning is to reduce spatial or regional imbalances in the economic development of a country by accelerating growth at a faster rate in the backward region. In this context, industrialisation has a significant role to play because it secures faster economic growth compared to agriculture. The net value of output per person is higher in industry than in agriculture due to greater scope for internal as well as external economies. This explains the higher priority accorded to industry in the Development Plans of the developing economies. The experience of the developed countries also suggests that most of them had to pass through the phase of rapid industrialisation before coming to their present stage of development. Economic history of these countries reveals that industrialisation, as a factor of economic development has been the result of simultaneous promotion and growth of two widely compartmentalised but complementary sectors viz. large scale

industrial sector and small scale industrial sector. They are considered to be the two wheels of the vehicle of industrialisation. Development of both the sectors is equally important to bring about a radical transformation in the economic structure of a country. The conflict between the two sectors disappears once we recognise their distinct spheres of operation and adopt appropriate policies for their integration and coordination in the over-all plan of economic development. This is confirmed by the experience of many developed countries and can be gauged from the fact that in U.S.A. 9 out of 10 firms are small, employing less than 10 workers; in Japan, small enterprises account for 80 per cent of the private sector industrial workers; in Australia, dynamic small business sector employs 40 per cent of total private employment.

The importance of small units is very well brought out by the opening address given by the Duke of Edinburgh at the Senior Management Conference organised by the Institute of Practitioners in Work Study Organisation and Methods of U.K. He pointed out "The fact that growth can only take place from beginning, and unless we have a thriving small business sector there will be less chance of genuine national economic
growth or industrial innovation and what is perhaps more important, there will be no opportunity for people with initiative and energy to realise their talents and ambitions. The big companies and nationalised industries are obviously vital, but they have rigid and inflexible structure compared to the mass of small companies in a constantly changing pattern of growth and sometimes decline. The big companies are like the tip of an iceberg — they would not be there but for the enormous and largely invisible mass which supports it.¹

Indeed it is difficult to visualise how a modern economy could function without a small scale sector. In its absence, the consumer would be deprived of a great deal of his present wide range of choices. The large companies would not be able to cope with the demands for a plethora of parts, sub-assemblies, and components which the small manufacturers are able to provide at low cost. An efficient small sector would thus be indispensable to a balanced industrial and commercial structure.

These facts reinforce the belief that "Small is beautiful". In other words Small Industries have come to occupy

a prominent place in the economies of advanced countries. Their importance for backward economies characterised by widespread unemployment or under-employment, is still greater. Many people in these economies are unemployed or under-employed not because they prefer idleness to work, but because there is an utter insufficiency of co-operating factors of production to set them to work. Unskilled or poorly skilled labour is without work because the supply of other complementary factors of production is inadequate, the factor in insufficient supply may be either land, capital, technical, administrative, or enterprisural skills or a combination of all or some of these. This monster of unemployment and widening income inequality haunts these countries with disastrous effects on peoples polity. These economies have very slow growth and sometimes even negative growth due to population explosion. What is required at this critical juncture is entirely a new outlook, an outlook based on attention to people rather than goods. The real challenge facing any developing economy is the creation of millions of new jobs. In this context the remarks of Gandhiji are worth remembering. He said "the poor of the

world cannot be helped by mass production, only by production by the masses. The system of production by the masses mobilises the priceless resources which are possessed by all human beings, their clever brains, and skilful hands and supports them with first class tools. The technology of mass production is inherently violent, ecologically damaging, self-defeating in terms of non-renewable resources and stultifying for the human person. The technology of production by the masses, making use of the best of modern knowledge and experience, is conducive to decentralisation, compatible with the laws of ecology, gentle in its use of scarce resources and designed to serve the human person instead of making him the servant of machines. I have named it intermediate technology to signify that it is vastly superior to the primitive technology of by-gone ages but at the same time much simpler, cheaper and freer than the super technology of the rich. One also calls it self-help technology, or democratic or peoples' technology, a technology to which everybody can gain admittance and which is not reserved to those already rich and powerful.¹

Schumacher puts forth the following prepositions to weed out the problem of unemployment:

First, the work places have to be created in the areas where the people are living now, and not primarily in metropolitan areas to which they tend to migrate.

Second, these work places must on an average, be cheap enough so that they can be created in large numbers without calling for an unattainable level of capital formation.

Third, the production methods employed must be relatively simple so that the demands for high skills are minimised, not only in the production process itself, but also in matters of organisation, raw materials supply, financing, marketing and so forth.

Fourth, that production should be mainly from local materials and mainly for local use.

These propositions strongly emphasise the need of small units being assigned a definite role in the development process of the developing countries to achieve both long-term and short-term goals of industrialisation. They are more labour intensive and thereby provide employment opportunities to millions of people who cannot be fully absorbed in large scale industrial and agricultural sectors. They play a useful role in regional
development by mobilising scarce inputs like capital, raw materials, and managerial and technical skills which may remain largely unutilised or under-utilised. In fact these units serve as nursery for technical and managerial skill in the country. Thereby they form an integral element in the socio-economic structure at all stages of economic development. Small Scale Industries are small in name but the benefits that can be derived from them are by no means small. They play their role not only as intermediary stabilizers, but also as a catalytic agent in accelerating economic development.

DEVELOPMENT OF SMALL SCALE INDUSTRIES IN INDIA:

"Industrialise or perish" is the most popular slogan in the developing economies of the world today and India is no exception to it. In a capital scarce labour-abundant country like ours, wedded to the twin objective of growth and social justice, small scale industry naturally plays a vital role in resolving chronic problems of poverty, inequality, under-employment and unemployment. It provides ample scope for achieving the advantages of modern technology and at the same time preserving the merits of traditional technology in a
judicious manner, so that the prospect of dualistic development is avoided during the period of transition. If properly encouraged and developed it can make an even greater contribution in the newly industrialising economies than in the highly industrialised ones though its contribution even in the latter continues to be substantial. According to a reliable estimate, the net contribution of a rupee of fixed investment in Small Scale Industry comes to Rs.0.96, against only Rs.0.41 in the case of Large Scale Sector. A Project in SSI with an investment of Rs. 10 lakhs provides employment to 173 persons, while the same employment in the large scale sector requires an investment of Rs. 53.1 lakhs.

Apart from the low capital coefficient and the high employment potential, Small Scale Industry (SSI) ensures a more decentralised pattern of growth which avoids the evils of concentration and urbanisation. In view of these reasons both Central and State Governments have taken several measures from time to time to encourage this sector. The increasing

allocations made to it in the successive plans, cheap credit facilities on priority basis, tax benefits, subsidies, concessions in import of raw materials and machinery, and reservation of several items of production exclusively for the sector reflect the promotional and protectionist policies adopted by the Government towards the development of this sector.

The achievements of Small Scale Sector have been phenomenal. It has registered a growth rate of 9.6 per cent during the last three years, as against the overall growth rate of about 5 per cent for the industrial sector taken as a whole. The performance of Small Scale units in terms of production and employment may be seen from Table 1.1.

During the last decade, this sector has ventured into highly sophisticated areas of production like T.V. sets, electronic control systems, intercom sets, electro-medical equipments, air conditioning equipments, drugs and pharmaceuticals. Its performance on the export front has also shown a significant improvement. At present, it earns foreign exchange to the tune of Rs. 2,350 crores per annum.
Table 1.1

Production and Employment in Small Scale Industries
(1973-74 to 1984-85)

<table>
<thead>
<tr>
<th>Year</th>
<th>Production (Rs. Crores)</th>
<th>Employment (Lakhs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1973-74</td>
<td>7,200</td>
<td>39.7</td>
</tr>
<tr>
<td>1974-75</td>
<td>9,200</td>
<td>40.0</td>
</tr>
<tr>
<td>1975-76</td>
<td>11,000</td>
<td>45.9</td>
</tr>
<tr>
<td>1976-77</td>
<td>12,400</td>
<td>49.8</td>
</tr>
<tr>
<td>1977-78</td>
<td>14,300</td>
<td>54.0</td>
</tr>
<tr>
<td>1978-79</td>
<td>15,790</td>
<td>63.0</td>
</tr>
<tr>
<td>1979-80</td>
<td>21,635</td>
<td>67.0</td>
</tr>
<tr>
<td>1980-81</td>
<td>28,060</td>
<td>71.0</td>
</tr>
<tr>
<td>1981-82</td>
<td>32,600</td>
<td>75.0</td>
</tr>
<tr>
<td>1982-83</td>
<td>35,000</td>
<td>79.0</td>
</tr>
<tr>
<td>1983-84</td>
<td>41,300</td>
<td>84.15</td>
</tr>
<tr>
<td>1984-85</td>
<td>50,520*</td>
<td>90.0*</td>
</tr>
</tbody>
</table>

Source: Reports of SIDC (Small Industry Development Organisation) for various years.

KARNATAKA STATE
LOCATION OF BELLARY DISTRICT

Fig. 1
Thus during the coming five years, it is expected to achieve a compound growth rate of 10 per cent, to augment its annual output by Rs. 30,000 crores to Rs. 80,220 crores, to improve foreign exchange earnings through exports by Rs. 1,800 crores to Rs. 4,140 crores, and to provide employment to about 6.9 million people apart from the existing 9 million already employed.

**PROGRESS OF SMALL SCALE INDUSTRIES IN KARNATAKA:**

The economy of Karnataka has undergone rapid transformation during the last twenty years. The contribution of the primary sector to the total income of the State has declined from 61.2 per cent in 1960-61 to 45.4 per cent in 1980-81. The share of the secondary and tertiary sectors has by contrast, recorded an increase from 15.2 per cent to 24.4 per cent and from 23.6 per cent to 29.2 per cent respectively during the same period. This rapid transformation of the State's economy has been primarily the result of priority given to the development of industries under the State's Five Year Plans of Economic Development.

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Realising the vital role of Small Scale Sector (SSS) in the economy of the State, the Government has taken several steps for its protection and promotion which include establishment of Industrial Estates, supply of raw materials at concessional rates through KSSIDE, provision of concessional finance through Karnataka State Financial Corporation and Commercial Banks, allotment of industrial sites to small producers in developed areas with proper layouts, roads, water and power facilities, concessions in sales tax, grant of investment subsidies etc.

As a result of the above steps, the SSS in Karnataka has shown rapid progress in recent years, as shown in table - 1.2.

The figures in the table do not include the Small Units which employ less than 10 persons (20 in case of units using power) and which do not seek any assistance from the State Government. If they are included, the actual number would be found to be almost doubled. Despite this limitation the data presented in the above table indicate that SSS has made satisfactory progress during the period under review.
<table>
<thead>
<tr>
<th>Year</th>
<th>No. of Units Registered</th>
<th>Investment (Rs. lakhs)</th>
<th>Persons Employed</th>
</tr>
</thead>
<tbody>
<tr>
<td>1969-70</td>
<td>3,900</td>
<td>3,456.70</td>
<td>47,960</td>
</tr>
<tr>
<td>1970-71</td>
<td>1,896</td>
<td>2,199.30</td>
<td>42,818</td>
</tr>
<tr>
<td>1971-72</td>
<td>2,331</td>
<td>1,302.96</td>
<td>21,492</td>
</tr>
<tr>
<td>1972-73</td>
<td>2,294</td>
<td>1,375.88</td>
<td>22,911</td>
</tr>
<tr>
<td>1973-74</td>
<td>3,036</td>
<td>1,628.66</td>
<td>22,315</td>
</tr>
<tr>
<td>1974-75</td>
<td>1,903</td>
<td>3,517.56</td>
<td>45,440</td>
</tr>
<tr>
<td>1975-76</td>
<td>1,565</td>
<td>1,581.19</td>
<td>12,782</td>
</tr>
<tr>
<td>1976-77</td>
<td>1,442</td>
<td>1,495.70</td>
<td>15,355</td>
</tr>
<tr>
<td>1977-78</td>
<td>1,640</td>
<td>1,531.74</td>
<td>25,096</td>
</tr>
<tr>
<td>1978-79</td>
<td>1,840</td>
<td>1,603.03</td>
<td>17,068</td>
</tr>
<tr>
<td>1979-80</td>
<td>2,910</td>
<td>3,255.01</td>
<td>34,366</td>
</tr>
<tr>
<td>1980-81</td>
<td>2,776</td>
<td>3,041.83</td>
<td>26,164</td>
</tr>
<tr>
<td>1981-82</td>
<td>3,396</td>
<td>4,995.16</td>
<td>41,375</td>
</tr>
</tbody>
</table>

Cumulative Total as on 31-3-1982: 30,929, 30,944.77, 3,76,171

Plan Outlays:

In order to promote and improve the competitive strength of the Small Scale Sector, the State Government has allocated a sizeable amount in its plan outlays. The following table gives an idea of the financial allocations made for the village and Small Industries in Karnataka under various Five Year Plans.

Table - 1.2

Financial Outlays on Small Scale Sector Under the Plans

<table>
<thead>
<tr>
<th>Plan</th>
<th>Outlay (Rs. in lakh)</th>
<th>Expenditure (Rs. in lakh)</th>
</tr>
</thead>
<tbody>
<tr>
<td>I Plan</td>
<td>109.19</td>
<td>63.10</td>
</tr>
<tr>
<td>II Plan</td>
<td>630.00</td>
<td>501.00</td>
</tr>
<tr>
<td>III Plan</td>
<td>735.20</td>
<td>411.00</td>
</tr>
<tr>
<td>Annual Plans</td>
<td>159.45</td>
<td>171.50</td>
</tr>
<tr>
<td></td>
<td>165.00</td>
<td>165.00</td>
</tr>
<tr>
<td></td>
<td>320.00</td>
<td>263.00</td>
</tr>
<tr>
<td>IV Plan</td>
<td>640.00</td>
<td>570.12</td>
</tr>
<tr>
<td>V Plan</td>
<td>1,297.00</td>
<td>616.43</td>
</tr>
<tr>
<td>VI Plan</td>
<td>1,206.00</td>
<td></td>
</tr>
</tbody>
</table>

The Small Scale Industries in Karnataka are engaged in the manufacture of a wide variety of products like beverages, Hosiery and Ready-made garments, Paper products, Rubber products, Chemicals, Mineral products, Electric machines, spare parts, Automobile spare parts, Plastic goods etc. There is considerable scope for the manufacture of new items like microtine sulphate, coconut shell powder, sulphuric acid, bristle fibre yarn, oil from rice bran, bottle making, paints and varnish manufacturing, met manufacturing etc. If emphasis is laid on modernisation, expansion and diversification of the existing units, the progress of the SSI in the State can be further accelerated. The identification of 'Growth-poles' by the District Industries Centres is likely to provide the needed stimulus in this direction.

KARNATAKA'S INDUSTRIAL POLICY OF 1983:

The Industrial Policy Resolution passed by the State Government in July 1983 lays stress on self-employment industries, small scale and agro-based industries. This policy is aimed at correcting the regional imbalances through the establishment of Growth Centres in the backward regions. It stipulates greater provision of physical infrastructure facilities
for the rural and backward areas, rationalisation of procedures for the disbursement of incentives and concessions, and grant of more powers to the district level authorities to speed up decisions and thus enable the rural areas to grow faster.

The policy also stresses the need of conducting entrepreneurship development programmes for men and women in Karnataka so that the people are able to acquire a certain measure of self-reliance and self-confidence in starting new ventures and piloting them through the initial hurdles. Khadi and village industries are being given encouragement so that another 20,000 Khadi and Village industrial units could be set up in the near future for providing employment to an additional 1,50,000 people. Handicrafts and Handlooms are also to be given a further boost to benefit more people. Action plans for the above programmes are being drawn up.

No less than 10,720 new small units have already been established during 1984. Most of them have gone to the backward areas. The weaker sections of the society have been encouraged with loan facilities from the banks to set them up.
Financial and Infrastructure Development Corporations have been given targets for development of tiny and small units at the rate of 1,000 a month as per the Industrial Policy Resolution. Among other measures adopted by the Government, mention may be made of the following: Construction of Industrial sheds at the rate of 1,000 per annum; increase in the State Financial Corporation's assistance to Rs. 78.50 crores during the year 1985-86; authorisation of District Industries Centre, to sanction all incentives and concessions to the new small units at the district itself; and introduction of entrepreneurship development programmes on a wide scale. The result of these measures are awaited.

**SOCIO ECONOMIC PROFILE OF BELLARY DISTRICT**

Bellary district is the eleventh largest district of the State of Karnataka, with a population of about 1.49 millions.

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* There are varied theories in regard to the origin of the name of Bellary and it is rather difficult to say which of them is correct. In one of the lithic inscriptions dating back to 1131 A.D., found at Byloor, the name of 'Bellare' is found. In several other inscriptions found at Kolur, Sindigari, Kurugodu etc. (all
At present the district consists of two revenue
sub-divisions: Bellary Sub-Division, having three taluks
viz. Bellary, Sendur and Girguppa; and Hospet sub-division
having five taluks viz., Hospet, Nagaribommahalli, Horopanaballi, Hudligi and Hedagali.

are in Bellary district) the word 'Bellare' has been
used. In three Hoysala inscriptions of the years
1161 A.D. (Belur-193), 1176 A.D. (Magamangala 76) and
1185 A.D. (Belur-137) Bellare is mentioned as one of
the places captured by the Hoysales King 'Vishnuvardhana'
from these records it is clear that the place
referred to as 'Bellare' is Bellary of the present
days.

The area of Bellary district is associated with
certain events mentioned in the great epic 'Ramayana'
Kishkinda, where Rama, in the course of his search
for Sita, met and befriended Sugreeva and Hanuman,
is believed to have existed very close to Hampi which
became the capital of Vijayanagar Kingdoms in the 14th
century. Further this district formed part of territo­
ries of various dynasties such as Satavahans, Yadavas,
Chalukyas of Badami, Rashtrakutas, Ganges, Chalukyas of
Kalyan, Kalachuris, Savras, and Hoysales, and there
after it came under the sway of Vijayanagar Kings for
more than 2 centuries. After the fall of Vijayanagar in
1565, it came under Muslim rulers of Deccan and the
Marathas.

In return for stationing subsidiary force in his domain,
in the year 1660 Nizam agreed to cede to British all the
territories acquired by him under the two treaties of
1792 and 1799. And thus, four districts namely Bellary,
Ananthapur, Cuddapeh and part of Kurnool passed into the
hands of the British Rulers. These districts were popu­
larly known as ceded districts, All these districts were
in Madras Presidency till 1953. On October 1, 1953, the
Bellary District with its 7 taluks was transferred to
the then Mysore State (now Karnataka).
Location and Topography:

The district is situated between 14°-30' and 15°-50' north latitude and 75°-40' and 77°-11' east longitude. It extends from south-west to north-east and is situated on the eastern side, almost in the centre (north to south) of Karnataka State. It is surrounded by hill ranges on the west between Sandur and Hospet. Hill tracts, comprising richest areas of iron and manganese, stretch from south-west towards north-east. Clusters of granite hillocks are found throughout the district.

The District is bounded on the north by Daichur District in the west by the Dharwad District, on the south by the Chitradurga District and in the east by the Ananthapur and Kurnool Districts of Andhra Pradesh.

Rivers:

Tungabhadra river is the major river in the district. The whole district lies on the right bank of the river. The two tributaries are Nagari and Chikkamagal. The former flows across Bellary and Sirguppa taluks and the latter across
Herapashalli, Rudligi, and Hagaribommanahalli taluksa before joining Tungabhadra river. The Tungabhadra falls into the Krishna river a few miles below Kurnool town in Andhra Pradesh.

Rainfall:

The rainfall in the district is often scanty and uncertain. The average annual rainfall in the district comes to 574.9 mm. It is mostly confined to the period from May to November. 60 per cent of the annual rainfall is received during the period from June to September and about 24 per cent during October and November.

Climate:

The climate of the district is characterised by dryness in the major part of the year and a hot summer. The period from December to February is dry and comparatively cool. The maximum and minimum temperatures are 29.7°C and 16.7°C respectively for this period.

The summer season extends from March to May. In April and May, the temperature reaches its peak and the heat
is often oppressive. For this period, the maximum temperature is 39.2°C and the minimum temperature is 25.2°C.

Soil:

The soil types found in the district are mainly of black, red varieties. The black soil is best suited for rain-fed crops like staple cotton, Ground nut, Javer and Tur dal. In the taluks of Hospat, Sarpanahalli, Madagali, Kudligi and Sandur, red loamy and black loamy soils are found.

Natural Resources:

The District is endowed with rich mineral resources, especially iron ore and manganese. The region between the twin ranges of the Sandur Hills is "exceedingly rich in iron, richest in the world" (R. Bruce Foste). The district is also rich in manganese, with an average annual output of three million tonnes. The total ore reserves in the district are estimated between 1,000 and 1,250 million tonnes.

Area and Population:

This District has an area of 9395.9 square kilometres.
According to the census of 1981, Bellary district has a total population of 14,69,225 of which 9,97,065 (66.95 %) live in villages and 4,92,160 (33.05 %) in urban areas, as against the State average of 71.10 per cent and 28.90 per cent respectively. The density of population stands at 151 per square kilometre compared with the state average of 194 per square kilometre. Of the total population, 42.72 per cent are workers and 57.28 per cent non-workers.

Extent of Literacy in the District:

According to the census of 1981, the district had a literacy rate of 30.6 per cent. This is below the State average of 33.5 per cent. The extent of literacy is greater among the males (41.6 %) compared to females (19.3 %).

Agriculture:

The total geographical area of the district is 0.956 (Table 1.4) million hectares of which 0.591 million hectares (61.84 %) is under cultivation, 0.117 million hectares (12.28 %) is under forests and the rest of the area falls under the category of fallow land, uncultivable land etc. Further, out
Table - 1.4

Distribution of Area in the District and State
(In Hectares)

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Ballary District</th>
<th>Karnataka State</th>
</tr>
</thead>
<tbody>
<tr>
<td>Geographical Area</td>
<td>9,56,220</td>
<td>1,90,49,056</td>
</tr>
<tr>
<td>(100.00)</td>
<td></td>
<td>(100.00)</td>
</tr>
<tr>
<td>Net Area Sown</td>
<td>5,91,355</td>
<td>1,05,05,955</td>
</tr>
<tr>
<td>(61.84)</td>
<td></td>
<td>(55.67)</td>
</tr>
<tr>
<td>Fallow Land</td>
<td>65,951</td>
<td>13,77,592</td>
</tr>
<tr>
<td>(6.59)</td>
<td></td>
<td>(7.23)</td>
</tr>
<tr>
<td>Other Uncultivated Land</td>
<td>41,295</td>
<td>20,61,952</td>
</tr>
<tr>
<td>(4.31)</td>
<td></td>
<td>(10.82)</td>
</tr>
<tr>
<td>Forest</td>
<td>1,77,416</td>
<td>30,50,204</td>
</tr>
<tr>
<td>(12.29)</td>
<td></td>
<td>(15.90)</td>
</tr>
<tr>
<td>Land not available for</td>
<td>1,41,203</td>
<td>19,69,103</td>
</tr>
<tr>
<td>cultivation</td>
<td>(14.76)</td>
<td>(10.54)</td>
</tr>
<tr>
<td>Net Area Irrigated</td>
<td>1,54,388</td>
<td>15,99,347</td>
</tr>
<tr>
<td>(22.73)</td>
<td></td>
<td>(14.99)</td>
</tr>
</tbody>
</table>


Note: Figures within parenthesis indicate percentages to total geographical area, in the case of net area irrigated the bracketed figures indicate percentage to net area sown.
of cultivable land only 22.73 per cent is irrigated. The district is predominantly based on agriculture (75% of working population depends upon agriculture for their livelihood). The Commissioning of Tungabhadra project has come as a boon to the people. Besides, the high level and low level canals of Tungabhadra project the Siruguppa Channel, Deshanur Channel, Sadiganur tank, Mallapur tank etc., provide irrigation facilities. The major food crops grown in the district are Jowar, Paddy, Ragi, Millets, Bajra, and Maize. The notable commercial crops grown in the area are cotton, groundnut, sugarcane, sunflower and tobacco.

For the development of agriculture improved appliances like Tractors, Bulldozers, Power Tillers, and Power Sprayers are being used by the farmers. The use of chemical fertilizers and pesticides is gradually increasing. High-yielding and hybrid varieties are replacing the local varieties.

Transport and Communication:

Bellary district is well linked both by Road and Rail. The district has a road length of 3,709 Kms. constituting 43 Kms. national highway, 360 Kms. State highway, 571 Kms. major
district roads, 416 kms, other district roads and 918 kms. village roads.

As far as Railway line is concerned the district has a metre gauge line of 216 kms. and a broad gauge line of 115 kms. passing through Hospet and Bellary. It is also connected to Madras, Bangalore, Vijayawada, Bombay, Secunderabad and Delhi via Guntakal Junction. The Administration of Railway line falls under Subli Division of South Central Railway Zone.

The District at present has 456 post offices and 80 Telegraph offices. STD facilities are available from Bellary to Bangalore, Mysore, Belgaum, Dharwad and other places.

Banking Facilities:

At present 17 commercial banks are operating in the District; in addition to the District Co-operative and the District Land Development Bank, a Regional Rural Bank is also functioning. There are in all 193 bank branches comprising 156

2. Ibid.
commercial, 29 co-operative and 8 primary Land Development
Banks (PLDBs)\(^1\) Syndicate Bank is the Lead Bank in the
District guiding and supervising the operations of the above
branches. The per branch population in the District comes to
9,235, as against national average of 17,000 per branch.
However, per capita deposit is only Rs. 354, as against a
national average of Rs. 372.\(^2\)

**Industrial Finance**

The Karnataka State Financial Corporation (KSFPC) was
established in 1959 as a statutory organisation for the promo-
tion of industrial entrepreneurship in the State of Karnataka
by providing financial assistance, specially for tiny and
small scale sectors.

A branch of KSFPC was opened at Bellary in December 1983.
It provides financial assistance upto Rs. 1 lakh. The Regional
Office is located at Gulbarga which sanctions Term Loans upto
Rs. 2 lakhs for industrial ventures. Above Rs. 2 lakhs, the

\[\text{\begin{align*}
1. & \quad \text{Ibid.} \\
2. & \quad \text{Dist. Credit Plan, 1983-84, Issued by Lead Bank, Bellary.}
\end{align*}}\]
applicants have to approach the Head Office at Bangalore. Bellary branch has sanctioned an advance of Rs. 17 lakhs to 23 units till 31-3-1984.¹

**Industries:**

At present the District has 13 medium and large scale industrial units, providing employment to about 9,682 persons with a total investment of Rs. 5,444.10 lakh. They are engaged in the production of cotton yarn, sugar, alcohol liquors, calcium carbide, Ni.3. ingots, ferrosilicon, pig iron, manganese ore, edible oil etc.²

The important small scale industries in the District are: Cement, Food and Beverage, General Engineering goods, Printing Presses, Leather and Rubber, Chemicals, Ferrous and Non-ferrous Iron, Wooden furniture etc. The total number of small scale units in the district at the end of 1984, is estimated at 1,298, providing employment to 15,122 persons with a total fixed investment of Rs. 890.286 lakh.³

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REVIEW OF EARLIER STUDIES:

The literature on the subject is vast and varied. Broadly, it can be divided into two main groups. The first group constitutes studies of analytical nature aimed at providing policy prescriptions concerning issues like (a) the role of small scale industries in the industrial structure, and (b) performance, problems, and prospects of Small Scale Industries. The second group of studies include a large number of publications from Government sponsored agencies in the form of project reports, model schemes etc. They are mainly of informative and descriptive nature.

Most of the studies falling under the first group have focussed attention on the investment and employment aspects of Small Scale Industries. They have tried to establish inter-relations between investment, output, employment and wages. The first research of this kind was carried out by Dhar and Lydall. They compared capital output ratios for a number of industrial concerns of different sizes and found that for factories which employed 20 or more persons, capital output ratio increases with an increase in the size of the unit. In contrast to Dhar and Lydall, J.C. Senderera examined
the relationship between size and capital intensity and also between size and other economic characteristics. Sandesara's study revealed lack of positive association between size and capital intensity, but size and capital output ratio, size and surplus capital ratio and size and wage rate were observed to be positively associated and this provided further evidence supporting the conclusions earlier reached by Iwar and Lydall.

Mehta in his survey covering 32 industries falling under different investment groups examined capital-labour, output labour, and output capital ratios for three size classes viz., (a) Upto Rs. 5 lakhs (b) Rs. 5 - 25 lakhs and (c) over Rs. 25 lakhs. He found that in almost all cases, capital-labour ratio increased with an increase in size. Labour productivity was also generally found to increase with size, but not proportionately. As a result, output capital ratio was noticed to decrease with an increase in size.

Studies conducted on the problems of small scale units, have generally pointed out that finance is one of the
major hurdles of small scale units. An International Planning Team invited to suggest measures for the development of Small Scale Industries, found as early as 1954 that there was a severe lack of capital as well as credit largely because of low productivity and "over population" in many branches of small Industry. 1 C. Balakrishna analysed the financial experience of Joint Stock Companies in the Small Scale Sector and found that they had low carrying capacity due to high cost of production and high rate of interest. 2

P.N. Dah in his survey of small scale industries in Delhi found that the only source of external finance consisted of relatives, friends and traders. 3 D.T. Lakadawala and J.C. Sandesar in their study of Small Scale Industries in Bombay found that 342 firms had 391 cases of borrowing. In two-thirds of these cases loans had come from traders. 4 Daljit Singh in

his study of Small Scale Industries in Moradabad district found that 33 per cent of units had borrowed from traders, 27 per cent from relatives and friends and 21 per cent from money-lenders. Inderjit Singh and N.S. Gupta also pointed out the inadequacy of institutional credit. They concluded that only 5.1 per cent of borrowings were financed by institutional sources. On the basis of a survey conducted by the Central Small Industries Organisation, the Administrative Reforms Commission stated that 20 per cent of the credit-needs of small units were met by institutional sources. The study undertaken by National Council of Applied Economic Research in the State of Mycorre concluded that 41 per cent of total loan had come from commercial Banks. J.N. Mishra in his study in Saugar district found that industrialists preferred a tania (private money lenders) to a co-operative bank for

2. Inderjit Singh and Gupta N.S. "Financing of Small Industry" S. Chand and Co. Ltd., New Delhi, 1971, p.66
meeting their financial needs in order to avoid the complicated formalities, cumbersome procedures and undue delay which generally went with the bank loans.\textsuperscript{1} P. Ramakrishnan in his study in Delhi found that entrepreneurs were prepared to pay higher rates of interest to non-banking sources to avoid bank formalities.\textsuperscript{2} S.P. Mathur on the basis of his study in Agra Region reported that finding adequate fixed and working capital was the greatest bottleneck in the growth of small industry.\textsuperscript{3} More or less similar views were expressed by other scholars on the subject.

\textbf{APPROACH OF THE PRESENT STUDY:}

Despite the more or less conclusive evidence on the shortage of financial resources at the command of the small scale units, it is unfortunate that adequate attention has not been paid to assess the efficiency in the use of these limited resources. To what extent can this constraint be overcome through proper management techniques? How can the

\begin{itemize}
\item \textbf{1.} Mishra J.N. "Small Scale and Cottage Industry in Satna District" Singhai Mojals and Sons, Jabalpur, p.72.
\item \textbf{2.} Ramakrishnan P. "New Entrepreneurship in Small Scale Industry in Delhi" Economic and Scientific Research Foundation Delhi, 1975, p.36.
\item \textbf{3.} Mathur S.P. "Economics of Small Scale Industries" Sandeep Prakashan, Delhi, 1979.
\end{itemize}
existing available resources be optimally utilized? These are the questions to which the present study is addressed. The focus is on the managerial aspects of finance rather than on augmenting or changing the sources of finance. Such a study is of particular relevance and significance for the small scale industrial units which not only suffer from inadequacy of financial support, but also from an inability to assume higher risk.

**Specific Objectives:**

The specific objectives of the study are:

1. To identify the various sources of finance (both long-term and short-term) available to small scale units and to assess their relative importances;

2. To find out the problems faced by the units while obtaining finance from institutional and non-institutional sources;

3. To study the manner in which the available funds of the units are deployed on various items of fixed and current requirements;
4. To examine the policies, procedures and practices followed by Small Units in managing their finances over the short and the long periods;

5. To evaluate the performance of the units from the viewpoint of financial management; and

6. To make suggestions for improving the management of finances.

**Sampling Design:**

For the evaluation of the objectives of the study, the first task was to select a few 'representative' units for an indepth study. The selection of Small Scale Units for the survey was made in two stages. At the first stage, the units were classified according to investment into five groups viz., Group I (1-5 lakh rupees), Group II (5 - 10 lakh rupees), Group III (10 - 15 lakh rupees), Group IV (15 - 20 lakh rupees), and Group V (Rupees 20 lakh and above). At the second stage they were further classified, according to the nature of the products manufactured, into two groups; Agro based and Non-agro based. Keeping in view the two-fold
criteria 120 small scale units were selected at random from the list of Small Scale Units supplied by the District Industries Centre, Bellary. Care was taken to ensure that none of the units included in the sample covered more than one industry. Since 19 units did not co-operate in furnishing the required information they had to be deleted at a later stage. The final sample that emerged thus comprised only 101 units. Their details are given in Table 1.5.

Collection of Primary Data:

Primary data from the sample units was collected by the researcher through personal interview, on the basis of a pre-tested structured questionnaire (copy attached at the end vide Appendix A). Initially, a pilot survey was conducted for 15 units to know the reactions of the respondents towards the questionnaire. As a result of this survey, some irrelevant questions were dropped and some other questions relevant to the study were incorporated. The amended questionnaire was finally convassed to elicit information from the remaining units. Though the questionnaire was in English, the questions were explained in the local language i.e., Kannarese to elicit
<table>
<thead>
<tr>
<th>Group</th>
<th>Investment (Rs. lakhs)</th>
<th>Agro Based Industries</th>
<th>Non-Agro Based Industries</th>
<th>Aggregate</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>1 - 5</td>
<td>2</td>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td>II</td>
<td>5 - 10</td>
<td>5</td>
<td>2</td>
<td>-</td>
</tr>
<tr>
<td>III</td>
<td>10 - 15</td>
<td>3</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>IV</td>
<td>15 - 20</td>
<td>1</td>
<td>3</td>
<td>-</td>
</tr>
<tr>
<td>V</td>
<td>Over 20</td>
<td>5</td>
<td>5</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>16</td>
<td>11</td>
<td>6</td>
<td>10</td>
</tr>
</tbody>
</table>

* This group includes Garment, Printing Press, Tin containers, Concrete Pipe units.
correct information. The time taken to fill up each question-naire varied from 60 to 90 minutes, depending upon the educational background of the owner/manager and his capacity to grasp the questions and give their answers. Sufficient precautions were taken to cross check the information thus collected.

Sources of Secondary Data:

Financial Statements for a period of 5 years from 1980-81 to 1984-85 were collected from all the units. Secondary data was also collected from District Industries Centre, Lead Bank of the district (syndicate Bank) Information and publicity office, District Statistical Office, and from the Financial Institutions functioning in the district.

Tools and Techniques of Analysis Employed:

While analysing the data, statistical tools like averages and percentages, are deployed to facilitate comparison between different investment and industry groups into which the sample units fall. Financial Ratios have been computed for each of the above groups separately in the first instance, and collectively
thereafter, the results of the analysis have been interpreted to provide comparative insight into the working of the selected units on the basis of their size and organizational structure. Policy implications to which the results lead, have been suggested at appropriate places.

**PLAN OF THE STUDY:**

The study consists of eight chapters in all including the present one. Apart from discussing the exact nature and scope of Small Scale Industries, a critical review of policies strategies and measures undertaken by the Government for the development of this sector is presented in the second chapter. The management of long-term finance and the problems faced by sample units while raising finance from Financial Institutions are explained in the third chapter. Chapter four deals with capital structure of units under study and the problems of calculating cost of capital, while Chapter five gives various sources of short term finance raised by sample units through spontaneous and negotiated sources. Chapter six seeks to focus attention on the management of fixed assets by various industry and investment groups, while Chapter seven examines policies
procedures and practices followed by sample units in managing their current assets. The summary of findings and recommendations are incorporated in the last chapter.

LIMITATIONS OF THE STUDY:

The present study does not take into account the units having investment of less than Rs. 1,00,000 owing to a number of problems encountered by the researcher during the pilot survey. Most of these units did not maintain satisfactory accounts and offered information by recalling facts through memory which lead to considerable bias. The proprietors owning them were in many cases, illiterate and therefore not in a position to appreciate the value of such surveys. They were afraid of supplying the needed information and had the feeling that such information would be used for ulterior ends. It was almost impossible to overcome this apprehension in most of the cases.