CHAPTER 1

INTRODUCTION
Purpose of the Study

Small Scale Industries (SSIs) have been given a dynamic role to play in the industrial and economic growth of India. Recognising the SSIs sector as one of the priority sectors of the economy, Government of India and State Governments have been offering since more than three decades a number of facilities through institutional sources for its development. But, it has been found that the manifold facilities extended to SSIs have resulted in their localisation in and around large industrial centres'. Planning commission has reiterated the point that these units are not spread regionally but get concentrated in a few areas which are either big cities or developed urban concentrations or industrial complexes'. In order to attract SSIs to the backward areas, incentives and concessions have been offered by the Government of India since 1970-71. Government of Karnataka has also re-oriented its incentives policy introduced in 1966 to attract industrial units to backward areas of the state.


It is pertinent to examine the adequacy of incentives, concessions and institutional facilities, and the extent to which they are availed of and the problems associated with their availment, from the point of view of understanding how they have exerted their influence on the promotion of SSIs in Karnataka in general and in the backward areas in particular. The present study addresses itself to this task. The following are the principal objectives of this study:

1. To identify the problems facing SSIs in Karnataka.

2. To analyse the role of promotional agencies in the promotion of SSIs in the state in general and in the backward areas in particular.

3. To study, whether all the facilities, incentives and concessions announced by the Government of India and Karnataka Government are actually made available or not to the eligible SSIs.

4. To study the problems being faced by SSIs in availing themselves of institutional facilities and incentives.

5. To study the contribution of institutional facilities and incentives in the growth of SSIs in the state in general and in the backward areas of the state in particular.
6. To suggest changes, if any, in the policy regarding the institutional facilities and incentives from the point of view of making it more effective in promoting SSIs in the State in general and in the backward areas in particular.

The main hypotheses which we set out to test by this study are the following:

1. SSIs would not have grown in such large numbers but for the institutional facilities and incentives.

2. SSIs of backward districts/areas have more problems than the SSIs of advanced centres/areas.

3. The extent of availment of institutional facilities by the SSIs of advanced districts/areas is greater than the extent of availment by the SSIs of backward areas.

4. Institutional facilities and incentives help to generate first generation entrepreneurship.

5. Infrastructural facilities and availability of external economies attract the SSIs to the industrially advanced areas.

6. Lack of proper co-ordination amongst promotional agencies has resulted in the failure of many schemes formulated by the Government for the development of SSIs.
Research Design

This study covers the period from 1975-76 to 1987-88 and is based on primary as well as secondary data.

In order to make an evaluation of the extent of availment of institutional facilities and incentives, field study has been conducted in Mysore district and Peenya Industrial Estate, Bangalore.

We have selected Mysore district for field study for the following important reasons:

1. Mysore district, identified as industrially most backward, has been one of the earliest districts of Karnataka state selected for the grant of central investment subsidy.

2. This district is having the second largest number of SSIs in the state after Bangalore district.

3. Further, Mysore district has been selected for field study, also by taking into consideration factors like flow or coverage of institutional facilities and incentives of Government of India and State Government for a large number of SSIs of this district vis-a-vis other backward districts of the state.
We have selected Peenya Industrial Estate, Bangalore for field study for the following important reasons:

1. Bangalore is a metropolitan centre with the highest number of SSIs in the state. It is identified as one of the industrially most advanced centres in the state. Peenya Industrial Estate of Bangalore is considered to be the biggest industrial estate in the whole of Asian continent.

2. We have selected Peenya Industrial Estate to compare the extent of availment of institutional facilities by the SSIs of this centre with the extent of availment by the SSIs of backward areas of Mysore district.

Selection of Sample Units

Modern Small Scale Industries have been selected for field study. Stratified random sample technique is used to draw sample SSIs for conducting field study in the above mentioned places. Schedule-cum-questionnaire in respect of beneficiaries has been used for collecting information on institutional facilities and incentives availed of by sample SSIs of developed and backward areas.

Chapter Scheme

This study consists of eight chapters.

The first chapter is introductory in nature and spells out the objectives of the study, hypotheses, and the
methodology adopted. This chapter constitutes the foundation on the basis of which other chapters of the study are developed.

The second chapter provides an overview of the role and problems of SSIs. In this chapter, an attempt is made to analyse the problems of SSIs in Karnataka. This chapter defines the term 'Small Scale Industry' and states the present definition adopted for Small Scale Industry in India. This is followed by an analysis of the role of SSIs in advanced economies, in India and in Karnataka State. After enumerating the problems being faced by SSIs in Karnataka, this chapter highlights the need for incentives and facilities for boosting their development in the backward areas of Karnataka.

The third chapter is on institutional set up meant for the promotion of SSIs in the state. This chapter provides an outline of the functions of promotional institutions and brings out the fact that from the initial point of establishment of SSIs to the final point of marketing, there is institutional arrangement in the State.

The fourth chapter is on institutional sources of finance for SSIs in Karnataka. This chapter highlights the need for finance for SSIs, evolution of the financial
measures, financial assistance extended by the State Government and public financial institutions for SSIs in Karnataka. This is followed by a brief analysis of the problems experienced by Small Scale entrepreneurs in getting financial assistance from public financial institutions.

The fifth chapter is on non-financial measures for promoting SSIs in the State. The non-financial measures are of two types - promotional and protective. Promotional measures include construction/development of factory sheds/plots, consultancy services, supply of machinery on hire purchase basis, supply of scarce raw materials, marketing assistance etc. Protective measures mainly relate to reservation of product lines for small scale sector and reservation of specified products for state purchases. This chapter reviews both sets of measures.

The sixth chapter is on fiscal incentives for SSIs in Karnataka. This chapter analyses the distribution of Central and State investment subsidies among the SSIs of backward districts/zones of the state. This is preceded by an analysis of the recommendations made by different committees/working groups on identification of backward areas and on fiscal and financial incentives for starting industries in backward areas.

The seventh chapter is on field study conducted in Mysore district and Peenya Industrial Estate. This chapter
presents the objectives of the field study, hypotheses and the methodology adopted. It also examines the extent of availment of institutional facilities and incentives by the sample units of Mysore district and compares the extent of availment of institutional facilities by the sample units of industrially advanced centre - Peenya Industrial Estate with the sample units of Mysore district.

The eighth chapter is on the impact of incentives and facilities on the growth of SSIs in the State in general and in the backward areas in particular. This chapter analyses year-wise and district-wise growth patterns of SSIs, their capital investment and number of persons employed in them.

The ninth chapter contains the summary and conclusions of the study.