CHAPTER I
INTRODUCTION

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CHAPTER I
INTRODUCTION

1.1 India is a land of villages. Nearly 73.9%* of our total population still lives in about six lakh villages. Poverty, unemployment and underemployment have adversely affected the quality of life in rural India. The main objective of economic policy in India is to eradicate poverty, provide full employment and raise the standard of living of people. So long as India continues to be a rural economy, the key to economic development lies in development of rural areas. Mahatma Gandhiji had thought of this process, much earlier and therefore, he had emphasised the self-sufficiency of villages. Though, the Five Year Plans in India did lay emphasis on improving the quality of the life of the poor, the benefits have not reached the rural poor. Poverty and unemployment continue to exist till date.

1.2 In terms of population India ranks second next only to China and seventh in terms of geographical area in the world. Agriculture still accounts for over 35% of our national income and about 75% of our population are directly or indirectly engaged in agricultural activities. In the rural occupation sector agriculture occupies a predominant position accounting three-fourth of the rural employment. Indian agriculture is characterised by decline farm sizes and is increasingly

* Census of India, 1991.
becoming unviable for a sizable proportion of farming community. As per NSSO 43rd round, 69% of our rural population possesses less than 2 hectares of land, average land holding is 1.7 hectares and small and marginal holdings constitute 70% of the total. The pressure of population on land is already high and increasing and has already resulted in a large surplus of labour force in rural areas. Even a relatively rapid growth of agriculture is unlikely to generate productive employment for the rural population.¹ With the modernisation taking place in agriculture, the requirement of the labour in agriculture could decline. According to a study by the Planning Commission, about one million persons are getting displaced from agriculture every year.² Even after lot of developments, agriculture in India till today depend upon monsoons which are uncertain. It is rightly said that agriculture in India is a gamble for farmers. The problem of unemployment will be acute during the year when monsoons fail creating draught conditions.

1.3 Every third rural person in India lives below the poverty


Nearly 168.6 million rural people live below poverty line and about 42.2 million in urban areas, aggregating to 210.8 million. In percentage terms, 28.4% in rural areas and 19.3% in urban areas live below poverty line. The criteria for estimating the number of households below the poverty line are based on a person's nutritional requirements in terms of calories. It is estimated that the minimum nutritional requirement per person per day is 2400 calories in rural areas whereas, it is 2200 calories in urban areas. If the household is unable to bear the expenditure for this level of nutrition, it is categorised as below poverty line. The government has taken up poverty alleviation programmes for the rural areas. The important programmes are Integrated Rural Development Programme (IRDP), Jawahar Rozagar Yojana (JRY) and Employment Assurance Scheme (EAS). Despite the best efforts by the Government, the number of people below poverty line is increasing year after year. This is mainly because of the constant increase in population.

At the beginning of Eighth Plan, nearly 23 million people were unemployed. It is expected that between 1992-97 there will be an addition of 35 million and between 1997-2001 an addition of 36 million persons. Thus by the end of 1997 the country has to provide employment to 58 million persons at a growth rate of

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4% per annum. However, if the goal is to be achieved by 2002, there will be a need to provide employment to 94 million persons at a growth rate of 2.8% per annum. The target for the Eighth Plan is 2.61% per annum. Thus the Eighth Plan envisages generation of additional employment opportunities to 43 million during the plan period. Nearly 75% of this would be in rural areas. The agricultural sector even with a high rate of growth will not be able to provide employment to all the rural workers. The employment and underemployment may result in migration of rural people to urban areas. But this may add to the problems of already overcrowded urban areas. The urban areas have already been facing problems of housing, pollution, congestion, transport, education etc.

1.5 Thus, with the existence of vast unemployment and underemployment in agricultural sector and decline of per capita areas available for cultivation and to alleviate the rural people below the poverty line and to check the migration of rural people to urban areas, there is a need for industrialising rural areas. Thus to overcome the rural problems there is a need for developing rural industrial culture with an inter linkage between agriculture and rural industry. An accelerated agricultural growth coupled with rural industrialisation is definitely going to transform the village scene. The only way for breaking vicious circle of growing poverty, illiteracy, unemployment and underemployment and plight of rural people to urban areas is rural industrialisation. A vicious circle of poverty implies “a
circular constellation of forces tending to act and react upon one another in such a way to keep a poor country in a state of poverty".\textsuperscript{4} Rural Industrialisation, therefore, is part of the larger problem of regional development.\textsuperscript{5} In nutshell, expansion of employment opportunities through labour intensive rural industries with a backward linkage to agriculture would be an important strategy to tackle the problems of poverty, unemployment, underemployment and urbanisation.

1.6 Finance is the life blood of an economy. Adequate and timely availability of credit is of utmost importance for the development of an economy. Whether it be agriculture, industry or any other economic activity, finance is required for smooth take off. Finance is required for acquiring machines, tools, raw materials etc. Without proper finance there will be no efficient planning ---- purchase of materials, no production, no marketing, not any fair profit, the latter in its turn forming the foundation of the finance itself.\textsuperscript{6}

1.7 In India the most common complaint in different parts is

\begin{itemize}
\item \textsuperscript{4} Ragner Nurkse : Op cit p. 4
\item \textsuperscript{6} Report on small industries in India, International Team, Ford Foundation, Government of India, 1955, p. 37.
\end{itemize}
of lack of finance. By finance in this connection is meant lack of capital as well as lack of credit. Since no distinction is made between the two, though capital must be owned and credit must be borrowed through external sources. We can classify people who borrow from external sources into broadly groups, viz., poor who cannot increase their production and income without external assistance (which forms a major portion) and secondly the organised sectors of the economy which are in a position to generate internal resources for further increase in production, depending to some extent on external borrowing. Therefore, the focus should be on first category of borrowers who are in dire need of finance.

1.8 The main source of availability of finance is various financial institutions such as commercial banks, regional rural banks, co-operative banks and the like. The financial sector in India is almost wholly owned and controlled by the Government. Nearly 95% of the total banking resources of the country are in the hands of Government. This has brought about a sea change in the functioning of the financial sector in India. The main objective of the financial institutions in India today is not earning profits but catering to the social needs of the society, by expanding branches in rural areas, by providing credit to the weaker section of the society and development of backward region. The 'banking of classes' has now been transformed into the 'banking of the masses', Thus there is no two opinion about the banks playing important role in the economic development. The banks have made a tremendous
contribution but still a large gap relating to long term capital needs of industries remains to be plugged and the reluctance of banks towards this sector is well known. This was pointed out by the Committee on Finance for the Private Sector. "The Committee has given very considerable thought to the question of making increased finance available to the private industrial sector through commercial banks and in particular, explore the possibility of banks supplying long term capital to industries. In general, banks appear to be of the opinion that with their present resources they cannot make advances to industries on a long term basis".\(^7\) The Committee had therefore suggested the setting up of a series of financial institutions. Even before the submission of the report of this Committee, the Government had started launching a series of specialised financial institutions to cater to the needs of industrial finance. The State Financial Corporations established under the State Financial Corporation's Act, 1951 (63 of 1951) with an object of providing loans to small and medium scale industries, are the offshoot of such an effort.

1.9 The SFC's Act came into force on 1st August 1952. At present seventeen SFC's are functioning in as many states in India, the territorial jurisdiction of a few of them extending beyond to neighbouring states. In Tamil Nadu, the functions of

\(^7\) Report of the Committee on Finance for the private sector, Chairman; A.D. Shroff, 1954, p. 48.
the SFC are performed by the Tamil Nadu Industrial Investment Corporation Limited (TIIC) which was established under the Indian Companies Act in 1949, that is prior to the passing of the SFC’s Act and some of the provisions of the SFC’s Act have been made applicable to it. These Corporations provide assistance through a variety of schemes such as composite loan single window, hotels and other tourism related activities etc. The SFC’s Act has been amended from time to time to widen its scope and achieving operational flexibility.

1.10 The Karnataka State Financial Corporation, earlier known as Mysore State Financial corporation, was established on March 30th, 1959 under the SFC’s Act 1951. The area of operation extends to whole of Karnataka. Under the SFC’s Act 1951, the industrial concerns eligible for financial assistance are those engaged in manufacture, preservation or processing of goods, mining, hotel industry, transport of goods and passengers, power generation, fishing, weigh bridge etc.

1.11 The Corporation provides assistance for the acquisition of capital assets in the form of land, building and plant and machinery and also working capital assistance against raw materials, stock-in-trade and semi-finished products.

1.12 The maximum limit of assistance is Rs. 150 lakhs in the case of registered co-operative societies and companies whether private or public limited and Rs 90 lakhs in other cases like proprietary or partnership concerns or Hindu joint family. This excludes soft loan/seed capital/bridge loan against subsidy.
1.13 The assistance from Corporation is not available for concerns engaged in trading activity and in which directors of the Corporation or their relatives have any interest.

1.14 The authorised share capital of the KSFC is Rs. 100 crores divided into 100 lakh shares of Rs 100 each. The share holding of the Corporation as on 31-3-1996 was as follows:

Table 1.1

SHARE HOLDING OF KSFC AS ON 31-3-1996

<table>
<thead>
<tr>
<th>Particulars</th>
<th>No. of shares</th>
<th>Amount (Rs. in lakhs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. State Government U/s 4(3)(a) and U/s 4(5)</td>
<td>30,88,308</td>
<td>3,088.31</td>
</tr>
<tr>
<td>Special capital issued U/s 4A.</td>
<td>4,385</td>
<td>4.38</td>
</tr>
<tr>
<td></td>
<td>8,27,500</td>
<td>827.50</td>
</tr>
<tr>
<td>2. Industrial Development Bank of India U/s 4(3)(a)</td>
<td>22,92,692</td>
<td>2,292.69</td>
</tr>
<tr>
<td>Special capital issued U/s 4A</td>
<td>6,27,500</td>
<td>627.50</td>
</tr>
<tr>
<td>3. Insurance Co.s, investment trusts, other financial institutions U/s 4(3)(c)</td>
<td>16,570</td>
<td>16.57</td>
</tr>
<tr>
<td>4. Scheduled banks U/s 4(3)(c)</td>
<td>50,350</td>
<td>50.35</td>
</tr>
<tr>
<td>5. Co-operative banks U/s 4(3)(c)</td>
<td>2,070</td>
<td>2.07</td>
</tr>
<tr>
<td>6. Other parties U/s 4(3)(c)</td>
<td>625</td>
<td>0.63</td>
</tr>
<tr>
<td>Total</td>
<td>69,10,000</td>
<td>6,910.00</td>
</tr>
</tbody>
</table>

1.15 The management of the affairs of the Corporation is vested in a Board of Directors consisting of the following:

a. Four Directors nominated by the State Government (of whom one shall have special knowledge of or experience in small scale industries).

b. One Director nominated by the Reserve Bank.

c. Two Directors nominated by the Development Bank.

d. Three Directors elected, one each by scheduled banks, cooperative banks and one by remaining financial institutions and other institutions.

e. One Director elected U/s 4(3)(d) by other share holders.

f. A managing director appointed by the State Government.

1.16 The Corporation offers long and medium term financial assistance in the form of:

i. Loans and advances with a liberal repayment period (normally not exceeding 8 years) including moratorium.

ii. Loans in collaboration with other financial institutions.

iii. Subscription to share capital of companies promoted by small entrepreneurs (special capital scheme) by way of soft loan.

1.17 The main source of funds for the Corporation is refinance from Industrial Development Bank of India and Small Industries Development Bank of India. Besides this the Corporation avails lines of credit from commercial banks under their priority sector targets. The Corporation borrows money from Reserve Bank of India U/s 7(2)(b) of the SFC's Act, floats SLR Bonds and
also accepts deposits U/s 8 of SFC's ACT to augment its resources.

1.18 The affairs of the Corporation are being audited by Comptroller and Auditor General of India and also by auditors duly qualified to act as auditors under the Co.'s Act, 1956.

THE PROBLEM OF RESEARCH

1.19 The rural character of India's economy calls for developmental efforts in the rural sector. Industrialisation is one of the strong means of developing rural sector. Though agriculture is the mainstay of Indian economy, its capacity to provide employment, in the context of rapidly growing population, is limited. Rural industrialisation appears to be the solution. Many financial institutions, voluntary agencies and Government have been making efforts to industrialise the rural economy. Karnataka State Financial Corporation, a public sector unit, has been playing a catalyst role in promoting rural industrialisation through its schemes. Hence, the researcher deemed it fit to study the problem:

"The Role of KSFC in Rural Industrialisation in Karnataka".

1.20 The studies conducted so far in the context of rural industrialisation are limited in scope and coverage. Their concentration is on one of the various aspects of industrialisation. Financial institutions have a special role to play in rural industrialisation. KSFC being one of the
prominent financial institutions is chosen by the researcher for the present study. The present study attempts to throw light on the contribution of KSFC in promoting rural industries in Karnataka. The review of literature in the next section of this chapter justifies the selection of this problem of study.

REVIEW OF LITERATURE

1.21 The literature on the subject under the study can be classified as follows:
1. Informative and descriptive studies mainly consisting of project reports, schemes etc.
2. Analytical studies with an objective of providing policy prescriptions.

Dr. T.K. Lakshman

1.22 Dr. Lakshman\(^8\) in his research study presented a case study of 15 cottage and small scale industries in old Mysore state and had conducted field investigation of 1080 units. The 15 cottage and small scale industries covered in this study were cotton handloom, woolen handloom, silk handloom, cottage powerloom, black smithy, carpentry, pottery, mat weaving, basket making, foot wear, oil ghana, agarbatti, foundries,

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machine shops, machine shops cum furniture. The study was in depth in nature and covered almost all areas like procurement of raw material, techniques used, marketing etc. The study also highlighted the comparative picture of development in other countries. The study points out the importance of cottage and small scale industries in the overall development of the economy.

National Council of Applied Economic Research, New Delhi

1.23 A survey of the handloom industry in Karnataka and Sholapur was conducted by National Council of Applied Economic Research. The object of the survey was to study the economics of the handloom industry in the five district of Karnataka region viz., Bijapur, Dharwad, Belgaum, North Kanara and Sholapur. The first four districts now form the part of the Karnataka State and Sholapur is in Maharastra State. The survey covered 714 units. The important conclusions of the survey were:

a. The handloom industry is the most important cottage industry in Karnataka and Sholapur. It provides employment to approximately 85,000 persons and yields an annual output amounting to about Rs. 10 crores. In this respect it is second in importance next only to agriculture.

b. The establishments are small, scattered, poorly organised and unable to meet the competition from textile mills. The major difficulties were lack of funds and marketing. The study points to the need for giving encouragement to the handloom industry on the grounds that it absorbs a large number of labour force and caters to the local lower middle class demand in respect of coarser variety of cloth.

Dr. L.K. Bharatiya

Dr. Bharatiya in his sociological study consisting of the historical theoretical background supported by empirical research, selected following five centres in the Maharashtra State. 10

4. Village Leather Industry Centre at Kora Kendra, Borivilli (Bombay).
5. Ambar Khadi Production Centre at Nasirabad, Dist. Jalgaon.

The main findings of the study were:

a. The rural industries are meant for the purpose of rehabilitating displaced artisans and craftsmen, provide them jobs as well as income and participate in production for the national economy as a whole.

b. These industries while maintaining a link with the past practices have shown that they have a capacity for growth through the employment of a new technology.

He suggested that finances should be provided in such a way that the self dependency would be achieved easily. The Government may have to reserve more categories of industries exclusively for this sector.

Prof. V.S. Vyas

1.25 A monograph brought out by the Karnatak University, Dharwad suggests an integral approach to non-farm employment with agriculture in the centre and having backward linkage by creating infrastructure relevant to agricultural development and forward linkage through modern processing industries. Dispersal of industries in the rural areas with a direct link


with agricultural sector was suggested on the ground that such an linkage will expand the market for the products of industries as agriculturist's income will improve with a larger share in the value added.

Report of the Committee on Credit Facilities for Village and Small Industry Sector

1.26 As per the recommendation of 36th meeting of the All India Small Scale Industries Board, A Committee\(^{14}\) was constituted in August 1983 to review the operation of the various kinds of credit facilities presently available to the different sectors/groups of the village and small industries and the impact of the present policies in channeling an increasing proportion of institutional finance to meet the needs of the village and small industries sector. The important conclusions and recommendations\(^{15}\) of the committee were:

1. The increased flow of institutional finance in the village and small industry sector has not covered the artisan the subsector adequately and that sector continues to depend for a major part of its capital requirements on non-institutional credit at exorbitant rates of interest. Therefore, a distinctly


\(^{15}\) Ibid p. 3
sharp focus needs to be given to tiny, cottage and village units as compared to other small scale units.

2. The network of banking system has spread in line with the needs of the institutional finance of the sector. However, there is scope for further improvement in the functioning of the existing credit delivery mechanism at the grass root level.

Dr. B. Sheshadri

An empirical enquiry\textsuperscript{16} into the regional and structural aspects of industrialisation in Karnataka based on the secondary sources of data, both published and unpublished presented by Dr. Sheshadri had the following objectives.

i. To identify theoretically the precise ways in which industrialisation promotes economic development.

ii. To know the inter district disparities in industrialisation in Karnataka.

The in depth examination of the inter-sectoral behaviour of Karnataka economy for the periods of 1960-61, 1970-71 and 1980-81 reveals\textsuperscript{17} the existence of inter district disparities in the levels of development and excessive concentration of registered manufacturing activity in Bangalore. The inter

\textsuperscript{16} Dr. B. Sheshadri: Industrialisation and regional development, Ph. D. Thesis (Karnatak University) Published by Concept Publishing Co., New Delhi, 1991, p. 39.

\textsuperscript{17} Ibid p. 189 and 192.
District disparities in small scale industrial activity are found to exist in 1970-71 and 1980-81. The cross section analysis shows maldistribution of activity among the districts of Karnataka. The analysis also shows concentration of the small scale industries in Bangalore. He suggests that the Government should encourage the establishment of more and more small scale industries in the backward region and a need for formulating different policies for different districts and sector wise policies for the same district.

R. Natarajan

1.28 The broad objective of Natarajan's study was examination of the trends in the institutional financing to small scale industrial units in Andhra Pradesh for a period of one decade commencing from 1970 and sub objective\(^\text{18}\) of the enquiry was to discern the degree of correlation between the advances and working capital of Andhra Pradesh State Financial Corporation. A field study was undertaken which was limited only to registered modern small scale industries operating inside and outside industrial estates in the selected districts. A sample of five districts was selected choosing one backward and one other than

backward district from each region. The main findings\textsuperscript{19} of the study were that the institutional financiers have a soft corner for those who come from business family. A typewise analysis of disbursed loans reveal that only a negligible amount is advanced under mini loan category (composite loan). It reflects the Corporation's indifference in financing the village, cottage and tiny industries. The backward districts did not receive due share. The study suggested for setting up of a separate agency to finance the fixed capital requirements of tiny, village and cottage industrial units on the lines of APSFC.

Dr. R.V. Rao

1.29 Dr. Rao's empirical study\textsuperscript{20} with reference to Andhra Pradesh revealed that traditional cottage industries with a little improved technology can make a real contribution to the planned development of the country. The workers have the job satisfaction, there is an improvement in the earnings of the workers. The problem of underemployment and unemployment is solved to some extent, women can get a lot of employment opportunity through them. His study suggests introduction of intermediate technology.

\textsuperscript{19} Ibid p. 273 and 275.

\textsuperscript{20} Dr. Rao R.V.: Rural Industrialisation in India - The changing profile, Concept Publishing Co., Delhi, 1978, p. 133.
Dr. Mohan Lal

1.30 Dr. Lal's study covers the Bareilly district of Rohilkhand division of Uttar Pradesh State and shows how the industrialisation and administrative infrastructure can be best adapted for the development of rural areas. The study suggests the strengthening of administrative machinery for the identification of the problems and prospects of industrialisation, setting up of a commercial organisation at the central and state level for the procurement of raw material. The study also suggests that the officials of the District Industries Centres should visit each unit in the rural area and provide necessary guidance. The another important finding of the study relates to finance. The urban based small units comparatively biggermen took the advantage of the advances made to the small sector and rural based enterprises often get only a small proportion of the credit allocation.

K. Rama Krishna Sharma

1.31 A monograph brought out by National Institute of Bank


Management, Pune, reveals that backward areas encountered certain difficulties in availing themselves of the sanction made by the APSFC.

Dr. T.S. Papola

1.32 Dr. Papola's study\textsuperscript{23} based on a sample survey of 387 rural industrial units in six blocks of Varanasi and Ghorkpur districts of Eastern Uttar Pradesh revealed that rural areas have a much more diversified structure of industries than is generally presumed. A number of industrial activities which were not traditionally a part of the rural scene, have started playing a significant role in the generation of employment and income in rural areas. Moreover, most of these industries have provided remunerative employment and shown a relatively better growth potential. In the light of his findings, Papola\textsuperscript{24} suggests that the scope of promotional measures undertaken for the development of rural industries would have to be extended to all the industries located in rural areas and not limited merely to the specified village industries and crafts. The study also suggests that the protective and promotional measures should aim at increasing the growth potential rather


\textsuperscript{24} Ibid p. 99.
than mere survival of rural industrial units.

B.T. Acharya

1.33 An evaluation report\textsuperscript{25} of block adoption programme of the Industrial Development Bank of India was prepared by B.T. Acharya at the instance of IDBI. In all, twelve blocks of twelve different states were identified and adopted by eleven Technical Consultancy Organisations and one professional group; called Professional Assistance for Development Action (PRADAN), a non-profit making company. The twin objective of the evaluation study was to get some useful feedback on the working of the blocks and on that basis, determine the need and scope for improving their performance. The finding of the evaluation study reveals\textsuperscript{26} that the block adoption programme succeeded in a large measure in augmenting the existing delivery system and blending it with a professional temper and dedicated approach. The study suggests that the inherent quality of the human resource available in the backward areas requires to be properly harnessed and their energies channelised for local enterprises. In order to industrialise the backward areas, the study suggests for considering first clusters of villages and entrepreneurs in a block as this will provide economy of scale of operation.

\textsuperscript{25} Acharya B.T.: Rural Industrialisation - A catalyst in Action, Himalaya Publishing House, Bombay, 1990, p. 3

\textsuperscript{26} Ibid p. 72 and 74.
M. Ashok Kumar

1.34 Ashok Kumar\textsuperscript{27} has analysed the problems and prospects of rural industrialisation in nine villages of Warangal district of Andhra Pradesh. The objectives of the study were, the identification of the entrepreneurs in small scale and cottage industries, factors that influence enterprises, existing infrastructural facilities for the rural industries etc. The main findings of the study were:\textsuperscript{28}

1. The availability of the infrastructural facilities in some villages had led to the emergence of rural industries.
2. The higher investment would lead to high employment potential.
3. The employment potential was not tapped fully.
4. The process of rural industrialisation is not progressing fast due to some bottle necks like lack of technical and financial help, lack of effective demand for the products of these units.

The study suggests that, to avoid competition from large scale producers the state should formulate policy which should be complementary to the products of large scale units rather

\textsuperscript{27} M. Ashok Kumar: Rural Industrialisation in India (A strategy for rural Development) Ph.D. Thesis (Kakatiya University) Mittal Publications, New Delhi, 1989, p. 87.

\textsuperscript{28} Ibid pp. 290-292.
than competitive in nature. A co-operative marketing society should be encouraged for the products of these industries. States should play an important role in providing infrastructural and financial facilities for encouragement of entrepreneurship in rural areas.

H.S. Mehta

1.35 In his intensive study29 of Shekavati region of Rajasthan consisting of two Northern most districts of Sikar and Jhunjhunu of Jaipur division, finds that the state of development of cottage and village industries was woefully poor. The lack of adequate finance, proper organisational and technical guidance, difficulties in procuring raw materials and marketing of finished products coupled with defective techniques are important handicaps of the artisans of the region. He suggests that a few production cum training centres should be established for providing training and technical guidance to the villagers and to organise producers' co-operatives.

Jagadanand Jha

1.36 In his in depth study30 of the crucial role of Khadi and village industries in the planned economic development of


Bihar, Jha finds that the production, employment and earnings of this sector have continued increasing over the years. Lack of marketing infrastructure is the biggest problem of this sector. He suggests that state should buy a number of items such as shoes, office furnishings and the type.

S. Giriappa

1.37 The SEEUY Scheme (Self Employment to Educated Unemployed Youth) implemented by the District Industries Centre for the year 1986-87 and 1987-88 has been reviewed by Giriappa. In his study in five Talukas of Uttar Kannada district of Karnataka State he finds that in the initial years there were problems like inadequate working capital and marketing. He suggests that DIC has to play an important role in proper identification of the beneficiaries and projects and provide the required infrastructural facilities.

1.38 From the review of literature it is clear that there is no two opinion about the important role of rural industries in the national economy. The scholars have studied such aspects as the problems and prospects of rural industries, their role in the rural development, the structure, viability and performance of rural industries, Khadi and Village industries and their role in economic development etc. However, the scholars have not

studied the role of finance, which is the life blood of an economy and its impact on the rural industrialisation. This has been confirmed by the Expert Group of the United Nations Centre for Regional Development. The Expert Group\textsuperscript{32} points out that adequate research has not been done on various aspects of rural industrialisation and its role in regional and national development. Much of the relevant data is of a technical nature. Also social scientists have not taken enough interest in it, thereby leaving considerable gaps in the knowledge.

1.39 We have noted in the earlier pages that the study of R. Natarajan pertains to only registered small scale units in Andhra Pradesh. The study does not cover the rural industries in particular. The study of B.T. Acharya covers twelve blocks of twelve different states. Such macro level studies may not throw much light on the problems of a region.

1.40 It is against the above background a study of the Karnataka state Financial Corporation in the State of Karnataka is undertaken.

THE OBJECTIVES OF THE STUDY

1.41 The present study has the following objectives:

1. To review the various schemes of KSFC concerning rural industrialisation.

2. To assess the extent of finance provided by KSFC for rural industrialisation.

3. To evaluate the contribution of KSFC to rural industrialisation in terms of employment generation, use of local resources, dispersal of industries, development of backward rural areas and assistance to the social and economically weaker sections of the village community.

4. To ascertain the role of KSFC in reducing the level of rural poverty and bringing about socio-economic transformation of rural areas.

5. To analyse the problem areas and

6. To make suitable policy recommendations for strengthening Rural Industrialisation Programme.

HYPOTHESIS

1.42 The study attempts to test the following hypothesis:

A. "The KSFC has been playing an effective role in rural industrialisation of Karnataka".

B. "Rural Industrialisation Schemes of KSFC are strong in content but weak in implementation".
DATA COLLECTION

1.43 The study is based on both primary and secondary data. To elicit necessary information, a structured mailed questionnaire was canvassed among the branch managers of KSFC throughout Karnataka. Interview schedules were used for collecting primary data from the entrepreneurs involved in rural industrialisation in the study area. Minimum ten entrepreneurs in the villages coming under the purview of each branch office have been covered for the purpose. The villages were selected on the basis of distance to branch office, period of adoption and relative backwardness of the areas concerned. To strengthen and support the data base discussions were also held with Mandal Panchayat Pradhans/officials, general manager and officials of the DIC.

The secondary data is collected from the KSFC Corporate office, journals, books and other published and unpublished sources.

METHODOLOGY

The data collected has been then classified, tabulated and statistical methods have been used for analysis. The statistical tools of averages, correlation coefficient are used to measure the central tendency and degree of correlation. The chi-square test of significance is conducted.
SCOPE AND LIMITATIONS OF THE STUDY

1.45 The study is mainly concerned with assessing the role of KSFC in rural industrialisation of Karnataka. It is a state level macro study with particular emphasis on village industries at operational level. The findings and conclusions of the study would be applicable to the KSFC in particular, but it would also form basis for strengthening the schemes of rural industrialisation designed by other agencies/institutions. As the State Financial Corporations have been constituted with similar objectives, the conclusions will be useful in framing broad policies of rural industrialisation.

1.46 The period of study considered here is since the inception of KSFC in 1959 till 1992 with particular emphasis on a period between 1988-89 to 1991-92, during which KSFC designed and implemented rural industrialisation programme. However, an attempt is made to be up-to-date.

STUDY AREA

1.47 Karnataka is situated in Southern part of India and is bounded by Maharastra in north, Goa and the Arabian sea on the west, Tamil Nadu and Kerala on the south and Andhra Pradesh on the east. The state is stretched in between 11.5° and 19° North latitudes and 74° and 78° east longitudes.
1.48 The state has an area of about 192 thousand square km and a population of about 450 lakhs. It is eighth largest state in India in terms of area and also ranks eighth in respect of population.

**DEFINITION OF CONCEPTS**

1.49 In the present study we have used certain concepts/terms more frequently. The following are the definitions of such terms/concepts.

1. **State Financial Corporations (SFC's)**

1.50 The State Financial Corporation's Act was passed in 1951, with a view to enable the State Governments to establish SFC's. The main object of enacting such an act was to provide long term and medium term credit to small scale and medium scale units. The Karnataka State Financial Corporation was established in the year 1959 under the SFC's Act 1951. In the present study we refer Karnataka State Financial Corporation as 'Corporation' or 'KSFC'.

2. **Industrial Development Bank Of India (IDBI)**

1.51 The Industrial Development Bank of India was established in 1964 which is an apex body in the field of industrial finance. During the initial period it operated as a wholly owned subsidiary of Reserve Bank of India. Subsequently in view of the increased importance laid on industrial sector the Government of India reenacted the Act in 1975 and the IDBI was made as a separate body. It co-ordinates the work of various
financial institutions engaged in industrial finance. The Industrial Development Bank of India is referred to as IDBI or Development Bank in the present study.

3. Small Industries Development Bank of India (SIDBI)

Small Industries Development Bank of India was established on 2nd April 1990, as a wholly owned subsidiary of IDBI. It is a principal financial institution engaged in the promotion and financing of small scale industries in India. It also co-ordinates the activities of various financial institutions engaged in promotion and financing of small scale industries. We refer it as SIDBI in our study.

4. Banks

We use the word 'Bank' more frequently in our study. The term bank for our study means and includes all scheduled commercial banks, co-operative banks and regional rural banks, whose functions are mainly mobilisation of savings and channelising such savings to the productive uses.

5. District Industries Centres (DIC's)

The DIC programme launched on 1st May 1978, represented an innovative approach for providing an integrated administrative framework at the district level to cater to its industrialisation needs in a composite manner. The main functions of DIC's are:

a. To conduct industrial potential surveys of the district.
b. To motivate the entrepreneurs.
c. To provide training to entrepreneurs.
d. To assist the entrepreneurs in selecting the machinery.
e. To arrange for credit.

The District Industries Centres have been referred to as DIC's in our study.

6. Entrepreneur

1.55 The entrepreneur is a person who has a dynamic personality, is a risk taker, adventurer, who has capacity to organise and has ability to mobilise resources, who has an inner desire for achievement. He is optimistic with the qualities of imagination and creativity. The entrepreneur may be regarded as an agent of change.34 We may now formulate an working definition for our study as follows:

"The entrepreneur is a person who has established a small scale industrial concern with an objective of earning profits therefrom".

7. Khadi and Village Industries Commission

1.56 The All India Khadi and Village Industries Board was set up in April 1953, which was subsequently upgraded as the Khadi and Village Industries Commission in 1957. The main objectives of establishing KVIC are:

a. To provide large scale employment.
b. To provide training to artisans.

Its main activity is the promotion of Khadi and Village Industries in the rural areas. It also co-ordinates the functions of other institutions engaged in similar activities. In our study Khadi and Village Industries Commission is termed as KVIC.

8. Tiny Scale Industry
1.57 Tiny Scale Industry is the one in which the investment in plant and machinery is less than Rs. 5 lakhs, irrespective of the location of the unit.

9. Small Scale Industry
1.58 Small scale industry is one in which the investment in plant and machinery is less than Rs. 60 lakhs (for an ancillary/100% export oriented unit the limit is Rs. 75 lakhs). We refer Small Scale Industry in our study as SSI's.

CHAPTER SCHEME

1.59 The study is presented in six chapters. The first chapter deals with 'Research Design and Methodology'. It explains the problem of research, reviews the literature, states the objectives of the study, hypothesis, methodology and scope and limitations of the study. It also defines various concepts frequently used in the study.

1.60 The second chapter deals with rural industrialisation in
India and Karnataka. The issues dealt are definition of rural industry, importance of rural industries and rural industrialisation in various plans.

1.61 Chapter three deals with the study area, that is Karnataka State and presents the socio-economic features of the state.

1.62 In chapter four the role of Karnataka State Financial Corporation in rural industrialisation in Karnataka is analysed.

1.63 Fifth chapter deals with important findings and conclusions of the study.

1.64 The sixth chapter deals with suggestions made on the basis of the study for strengthening rural industrialisation programme.