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SUMMARY OF OBSERVATIONS AND CONCLUSIONS
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This study aims at analysing the impact of incentives on industrial development in Dakshina Kannada district.

Removal of disparities through the promotion of industries in the backward regions has become the important strategy of development, particularly industrial development in all the countries of the world. The central and state governments of India have been introducing various institutional, financial and fiscal assistance and incentives to the industrial units to promote industrial development and the development of backward regions.

In India, both inter-state and intra-state disparities in the industrial development are observed. Over the years, though the magnitude of disparities in the industrial development between States have declined, it is significant enough to cause anxiety.

Karnataka State, one of the leading States in the industrial front, is also facing the problems of inter-district and intra-district or inter-taluk disparities in industrial development. The Government of Karnataka recognising the need for achieving the balanced regional development of industries and significantly to promote industrial development in the backward areas has formulated various institutional, financial and fiscal measures. Inter-district and inter-taluk variations are observed in the development of infrastructural facilities,
in the institutional assistance and in the sanction and disbursement of capital investment subsidy. It is necessary to ensure sufficient flow of financial and other incentives and concessions to the industrially backward districts in general and industrially backward taluks in particular for the effective realisation of the objective of developing backward regions. The Government's efforts to create favourable conditions for the development of industrial sector in the underdeveloped regions are paying dividends.

The main objective of this study is to analyse the impact of incentives on the development of industries in terms of location decision and development of entrepreneurship. This study is based on the primary as well as the secondary data. Dakshina Kannada district is selected for the field study as it is one of the leading industrial districts and has the problem of intra-regional disparities in the industrial development. 180 sample incentive availed units were drawn from three taluks of Dakshina Kannada District viz., Mangalore, industrially most developed, Bantwal, industrially backward and Belthangady, industrially most backward taluk.

The field study supports the hypothesis set out for this study.

The first hypothesis is that the government incentives are the important factors encouraging industrial entrepreneurship. In the study region, majority of the entrepreneurs of the sample units are first generation entrepreneurs. The government incentives have exerted highest influence on the development of entrepreneurship. This
indicates the favourable impact of various government measures on the emergence and development of entrepreneurship.

The second hypothesis is that a large number of incentive availed entrepreneurs are from high social and economic profile. This study found that of the hindu entrepreneurs (72.78%) 48.89% have come from upper castes and 62.78% of the total entrepreneurs are from high income groups.

The third hypothesis is that the extent of availment of institutional facilities by the industrial units of industrially developed taluk is greater than the units in industrially backward taluk. The study indicates that the industrial units of industrially developed taluk enjoy larger share in the provision of infrastructural facilities as well as in the provision of financial assistance compared to the units in the industrially backward taluks.

The fourth hypothesis is that the higher rate of incentives and concessions offered by the government in the industrially backward taluks will attract entrepreneurs to locate their units in the industrially backward taluks. According to the findings of the field study, the government incentives have exerted significant influence in the location decision of the sample units. Further, under the graded incentives scheme, higher rate of incentives and concessions have induced local as well as non-local entrepreneurs to locate their units in the industrially backward taluks.

The fifth hypothesis is that the capital investment subsidy encourages entrepreneurs to set up capital intensive
units rather than labour intensive units. The study show that the capital intensity of the assisted sample units is higher compared to the registered SSI units in the district.

The sixth hypothesis is that the industrial units of the industrially backward taluks have more problems than the units in the advanced taluks. The findings of the field study support the fact that the industrial units of the backward region face a variety of problems as compared to the units in the developed region.

The main observations made in the field study is given in the following paragraphs.

Large number of incentive availed units in the industrially backward taluks are located in the rural areas contributing to the development of that region. The importance of industrialisation in bringing about a transformation in the rural areas has long been recognised. Industrialisation of the backward rural areas is looked upon as the saviour of the rural economy owing to the declining importance of the primary sector. Only subsidies have been provided in the backward taluks and many other requirements have been ignored. The backward taluks are deprived of the benefits of developed infrastructural facilities enjoyed by the units in the industrially developed taluks. Many facilities whose importance tend to be overlooked in the developed regions because their existence is assured, pose major hurdles in the most backward areas. Therefore it is necessary to provide additional compensation in the form of higher rate of incentives and concessions along with the minimum infrastructural facilities.
in order to ensure effective industrial development in the backward regions.

The induced industrial development in the less developed taluks prevents migration of the resources from these areas by assisting entrepreneurial development.

Public participation in terms of institutional finance and capital investment subsidy is found to be high in the case of units with high investment in the backward taluks. It is necessary to channelise the financial assistance towards units with the lower investments having larger employment potential rather than units with heavy investment.

Though the entrepreneurs of the sample units are satisfied with the availability of term loans, they find it difficult to obtain the required working capital which is very crucial for the successful functioning of the units. Industrial units obtaining term loans from the KSFC need to approach the commercial Banks for the working capital. Hence the entrepreneurs are required to meet two agencies and put up papers. This is a cumbersome process particularly to the very small units located in the remote areas. Therefore there is a need to provide both term loan and working capital from a single source. Inordinate delay in the sanction of loans will enhance the project cost. There is also a need to reduce the rate of interest on the working capital which is quite high and as such affects the viability of the units. The insistence of collateral securities in the form of registered mortgage by the financial institution is causing delay and it is considered as a money lenders approach rather than a development banker.
Hence there is a need to inculcate an extension approach among operation level officers of all assisting agencies. Orientation programmes, extension motivation programmes are essential for such officers to maintain cordial relationship with the entrepreneurs.

The induced industrial development in less developed areas checks the out migration of labour from these areas by generating local employment opportunities. But the incentive availed units found to be highly capital intensive compared to the small scale units registered in DIC. It is more so in the case of industrially backward taluks. Thus capital investment subsidy has the inbuilt weakness of encouraging capital intensive units rather than labour intensive units. Capital invested per labour increases with the level of investment. Thus the scheme of providing subsidy on the basis of investment has failed in the employment augmentation. Hence there is a need for selective subsidy scheme of encouraging industries with large employment potential and low capital intensity. This can be achieved by offering higher rate of subsidy for units with low level of investment and lower rate of subsidy for higher investment projects, so that public participation in the project financing of small units with more employment potential will be the maximum. This will induce entrepreneurs to set up units with more employment potential.

The DIC's have to formulate location specific plans after conducting the industrial potential survey of the region inorder to encourage industries with high linkage potential. This is rarely seen at present.
Industrial units in general and units of backward areas in particular face the problems like shortage of skilled as well as unskilled labour, labour turnover etc. At the same time it is necessary to note the failure to implement various labour laws and welfare measures. The industrially backward taluks like Belthangady and Bantwal are not covered under the Employees State Insurance. It is interesting to note that a large number of industrial units either try to maintain less than ten workers or less than twenty workers for all official purpose to evade various labour laws. It is ridiculous to note that on the one hand entrepreneurs' complain about the large army of inspectors and on the other hand failure to implement necessary labour laws, to the units which are entitled to it. Hence there is an urgent need to ensure trickle down of incentives beyond the entrepreneurs by ensuring effective implementation of necessary welfare and security provisions for labour.

The cumbersome procedures and large number of returns that entrepreneurs have to furnish distract them from production and marketing activities. It is therefore necessary to undertake a comprehensive review of laws and procedures and to simplify them so that entrepreneurs are able to concentrate on running their units effectively.

As KSSIDC is supplying limited type and quantity of raw materials, its assistance is limited to few units. After making a careful survey of the raw material requirements of the relatively smaller units, efforts must be made to supply essential raw materials timely, particularly to the units
located in the industrially backward and remote areas at a concessional price.

The government is offering a number of incentives and concessions to new industrial units. But only few incentives were utilised by most of the entrepreneurs. This is mainly due to the lack of information, limited benefit and bureaucratic delay.

The entrepreneurs had to undergo a plethora of complex set of procedures and formalities which delay the sanction and disbursement of assistance. As most of the industrial units are 'one man show', if the entrepreneurs devote more time in claiming assistance, their other crucial areas will suffer, which will ultimately affect their production, sales and repaying capacity. Therefore the procedure to avail subsidy and other incentives should be made simple and financial institutions given the responsibility to claim the capital investment subsidy on behalf of the entrepreneurs as KSFC is doing at present. Sanction and disbursement of incentives particularly investment subsidy should be a time bound programme.

The provision of capital investment subsidy helps the entrepreneur if it is given in time, as it reduces the burden of borrowed capital and reduces the risk. Inordinate delay in the sanction and disbursement of capital investment subsidy is a common complaint of the majority of the sample entrepreneurs. Failure to assist the new entrepreneurs by delaying the sanction and disbursement of subsidy has compelled the entrepreneurs to borrow bridge loans which in many cases
has proved uneconomical. This has compelled the entrepreneurs to treat capital investment subsidy as 'bonus' rather than financial assistance to them to overcome teething hurdles in grounding their projects. Measures should be taken to make capital investment subsidy timely available to the new entrepreneurs, so that it will help them to set up their units in accordance with the project planning.

One of the problems in the massive promotional measures taken up by the various agencies as most of the new entrepreneurs take up either traditional projects or which others have been successfully doing. Now that the market has become highly competitive, the new entrepreneurs must be encouraged to take up new projects and explore the new sources of raw materials and new markets. The imitative entrepreneurship has led to undue competition, underutilisation of installed capacity, decline in the profit margin and thereby landed in severe financial difficulties. Therefore it is high time to introduce selective subsidy system by which imitative entrepreneurship should be discouraged in such a way that it ensures reasonable competition, optimum utilisation of the installed capacity of the existing units and also encourages entrepreneurs to explore new ventures. To introduce this scheme DICs should formulate location specific plan by conducting a comprehensive survey of the position of existing units and industrial potentialities.

Majority of the sample units have availed sales tax exemption offered by the Government of Karnataka. This sales tax exemption artificially makes the product cheaper to the
extent of sales tax. This will help the new unit temporarily to market its product but this is not a measure of making the product competitive. Once sales tax exemption is withdrawn, the unit will land in marketing difficulties if it has not stabilised its marketing conditions during the sales tax exemption period. Sales tax exemption will help the entrepreneur, if he can retain the sales tax benefit by hiking the price equivalent to that of the price of the products marketed by units without sales tax exemption. There may be difficulty for the new producer as other new producers may pass on the sales tax benefit to the consumers. By giving sales tax exemption the State Government forgoes its revenue and from the side of the producer it makes the product artificially cheaper. Therefore instead of giving sales tax exemption, the Government can provide interest free sales tax development loan for a specified period. This will help the entrepreneur to retain the benefit and the state Government may have to forgo the revenue for the time being.

Lack of proper co-ordination various departments engaged in the promotion of industrial sector has created number of problems to the incentive availing units. Hence there is a need to ensure clarity in the pronouncement of the policy formulation and to achieve efficient co-ordination between various promotional agencies.

In Karnataka State vast areas have been declared backward and are eligible for all concessions and incentives. Due to the vastness of the area, large number of applications and the availability of limited funds have resulted in the
The benefits are not really reaching the deserving units of industrially backward areas in time. Moreover it has resulted in part by part disbursement of subsidy. As a result small and new units set up in the industrially backward taluks with a hope of getting additional incentives were put up with hardships. On the other hand the industrial units in the industrially developed regions enjoy certain conveniences and facilities which are absent in the industrially backward taluks. Therefore there is a need to give preference to the new and small units located in the industrially backward taluks in the sanction and disbursement of subsidy either by allotting talukwise financial grants or by confining subsidy exclusively to the industrially backward taluk.

Government incentives have emerged as the most important determinant of location decision of the sample units to locate their units in their native places (or personal factor is found to have higher weightage). Government incentives, personal factors nearness to market and availability of the infrastructural facilities have emerged as the four important location factors. The extent of influence exerted by government incentives is high in the industrially backward taluks. This aspect necessarily induces us to call for higher rate of incentives and concessions in the industrially backward taluks where it exerts highest influence in the location decision.

The influence of personal factors is found to increase with the level of backwardness. Thus the higher order of incentives and concessions and other facilities may
contribute to indigenous entrepreneurship and thereby to the development of industrially backward areas.

Capital investment subsidy, nearness to market, availability of infrastructure have emerged as the most important location factors for non-local units. However, the availability of the infrastructure facilities to a large extent has induced non-local entrepreneurs to locate their units in Mangalore taluk (a industrially most developed taluk) where infrastructural facilities are available. This indicates that the significance of the infrastructural facilities in the industrial development. Thus there is a need to develop infrastructural facilities in the industrially backward area. The influence of Capital Investment subsidy in inducing non-local units is the highest in the industrially backward taluks. As close relationship is found between the choice of location and the Government incentives, it can be said that industries would be dispersed if sufficient financial incentives and infrastructural facilities are offered in the industrially backward taluks.

Under the Graded Incentive Scheme of 1988-93, the extent of influence exerted by the Capital investment subsidy is lower in the industrially developed taluk as compared to the industrially backward taluks. It has induced non-local entrepreneurs to set up units in the industrially backward taluks where additional incentives were offered. However large number of non-local units are set up in the industrially backward taluk which is adjoining the developed taluk to reap the benefits of infrastructural facilities. This graded incentive scheme has induced experienced local entrepreneurs to
setup their own units in their native place. Local people with technical qualifications in the backward area often prefer to start their business in their native place rather than seeking employment elsewhere. The graded incentive system which offers higher level of incentives by recognising the level of industrial backwardness of the region should be coupled with the development of minimum infrastructural facilities to enhance the effectiveness of government financial incentives and thereby to achieve rapid development of the industrially backward taluks.

The present policy of incentives and concessions (1993 and 1996) has made all the taluks of Karnataka except Bangalore North and South, eligible for 25% capital investment subsidy. This policy provides concessions and incentives to the small scale units without taking into account the level of backwardness of the region where it is located. This is a promotional policy for the small scale industries rather than a policy aimed at the development of industrially backward regions or to reduce regional disparities in industrial development. The present policy will definitely contribute to aggravate the regional disparity issue as the entrepreneurs may prefer to locate their units in the industrially developed regions where they can enjoy all facilities and incentives.

As the present policy provides benefits to most of the taluks of the State, the benefits may fail to reach in time and thereby put units in hardships in industrially backward areas. If all the taluks are made eligible for capital investment subsidy at an equal rate, major share will be enjoyed by the industrially developed taluk. More
applications, limited funds, procedural bottlenecks etc, will lead to further delay in the sanction and disbursement along with the part by part payment of the subsidy amount. Thus small and new units located in the industrially backward taluks will be put to hardships. Hence there is an urgent need to give preference to the new units, particularly small units of industrially backward areas, talukwise allotment of subsidy grants and confine capital investment subsidy to the industrially backward taluks on the basis of graded rate.

If all the taluks are made eligible for the capital investment subsidy and sales tax exemption, it is a zero sum game on the part of the State Government. It will aggravate the problem of disparity in industrial development between taluks instead of reducing it. Indiscriminate subsidisation leads to the emergence of the capital intensive as well as imitative entrepreneurship along with aggravating the problem of regional disparity in the industrial development.

If it is difficult to confine investment subsidy and other concessions to the industrially backward taluks, atleast graded incentives can be reintroduced. This can be done by preferring backward areas in the sanction and disbursement of subsidy and by offering higher degree of incentives. This will offset the disadvantages faced by the entrepreneurs due to the remoteness and backwardness of the region.

The impact of government incentives on the development of the industrial entrepreneurship in general and first generation entrepreneurs in particular is found to be significant. By and large persons with fairly good educational
background are aspiring for entrepreneurship. Dominance of the experienced entrepreneurs in industry & trade and poor representation of agriculture is observed. Talukwise analysis indicates that large proportion of the entrepreneurs' parents are from agriculture and low income background in the industrially backward taluk. Need for high income and social status is found to be the main reason to leave the previous occupation by the entrepreneurs in general. But in the industrially backward taluk need for self employment has also emerged as the significant factor. It is observed that the large number of incentives availed entrepreneurs are from high social and economic groups.

Thus there is a need to channelise the assistance programme to the backward areas where induced industrial development contributes for the mobility from primary to secondary sector. There is also an urgent need to ensure the reach of facilities to the downtrodden sections (in terms of both social & economic) of the population, so that entrepreneurship will emerge from low profile.

DIC's and various agencies conduct Entrepreneurial Development Programmes. As the settlement rate in the EDP's conducted by DIC is found to be very much limited, there is a need to incorporate the elements of post training followup of the trainees to enhance the achievement motivation and also to assist them in overcoming the teething problems in setting up the unit. The overall environment, especially the policies, schemes of assistance and their implementation must be such as to provide inducement and encouragement to nurture
entrepreneurship. Entrepreneurs should be provided with more and more information on various aspects such as selection of product, marketability, design of the product and alternative product profile. Market surveys should be conducted in a more intensive manner and information relating to the market feasibility of the product has to be provided.

The entrepreneurial environment created by the government is still hostile for the new entrepreneurs. The entrepreneurs had to undergo a plethora of cumbersome and complex set of procedure to avail assistance. DIC's should be made responsible to motivate and select the beneficiaries, identify and prepare plans, determine the activities for individuals, recommend loan and get clearance from concerned authorities, as partially done by non-Government organisations.

Efforts aiming at establishing a greater degree of cooperation, liaison, closer working relationships and better understandings between various financial, technical organisations and different departments both Central and State governments engaged in the promotion of entrepreneurship need to be made.

This study indicates the need to introduce graded and selective incentive programme. In this scheme new and small industrial units located in the industrially backward regions with high linkage and innovation are bound to enjoy higher degree of incentives. This will certainly contribute to bring a balance in the regional development and the type of industries and contribute to the development of backward regions as well.