Chapter - I

INTRODUCTION
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I.1 INTRODUCTION:

Industrialisation plays a vital role in the economic development and therefore is being considered as synonymous with economic development. A policy oriented towards balanced regional industrial development is essential to ensure the benefits of industrialisation reach almost all parts of the economy.

The problem of regional disparities, existing almost in all countries, arise due to faster growth of some regions while the other regions remain behind the developed regions.

Regional disparities in development create imbalance in employment and income. Regional imbalance in industrial development is a serious problem experienced in all countries of the world irrespective of their levels of development. Regional disparity leads to under utilisation of economic resources both natural and human and in that process individuals are discriminated.

Since disparities in development among regions are intensified by differences in industrial growth, developmental policies to reduce such disparities mainly take the form of steps to control and guide the location of the industry through incentives both positive and negative.

In India, industrial policies have been geared towards balanced regional development since independence. Since the early seventies, greater emphasis has been given to the objective of balanced regional development of industries. Certain areas have been identified as industrially backward and special schemes have been formulated to encourage the development of industries. In tune with the guidelines of the Planning Commission, the State Governments framed their policies of incentives to overcome the regional imbalances in the industrial development.

This study focuses on the measures taken by the Karnataka Government affecting the industrial sector.

1.2 STATEMENT OF THE PROBLEM:

The Government offers a package of incentives to promote industries in the backward regions. Industrial incentives is a multifaceted concept. It has a very wider coverage and includes measures like provision of township facilities, provision of basic inputs at subsidised rates and subsidised selling of products. On the monetary side it covers provision of concessional finance and on the fiscal front it covers provision of investment subsidy and various tax incentives. The entrepreneurs are encouraged by these concessions and incentives to set up industrial units. They are governed by the principle of minimisation of cost and maximisation of profit. This is the basis to measure the relative merit and demerit of setting up their units in the backward regions.
An incentive is basically a motivation for a person to take a decision which he might not have taken otherwise. To ensure balanced regional development, Central and State Governments frequently announce a number of incentives for new units in industrially backward regions. These incentives encourage the establishment of new industrial units in the selected areas. This leads to the effective utilisation of regional resources, removal of disparities in income and levels of living and contributes to a more integrated society. It is therefore necessary and interesting to study the impact of incentives on the development of new units in the selected backward regions.

Various studies and the analysis of disbursement of investment subsidy reveal that share of developed states in the disbursement of Central investment subsidy and share of developed districts in the disbursement of state investment subsidy is high and thereby the developed areas corner the benefits. Same problem is also found at the district level. Within the district some taluks have achieved high industrial development, and enjoy lion's share in the disbursement of concessions and incentives.

Another problem is spatial distribution of industries in a backward region. By availing all incentives firms are located in and around the urban centres of backward region which lead to the problem of regional disparities between towns and rural areas. In some cases firms are located as close as possible to the nearby developed region and thereby enjoy the concessions of a backward region and facilities of a developed region.
The Government is also offering incentives and concessions by recognising the regional variation in the industrial development. Thus it is necessary to analyse the impact of various incentives offered by the Government in the development of industries in a backward region.

The present study has been undertaken in Dakshina Kannada district of Karnataka State since intra-district disparity problem is observed in this region.

I.3 OBJECTIVES OF THE STUDY:

This research study has the following objectives.

1. To study critically various types of incentives for industrial development by identifying the total number and the type of industrial units availing the benefits under incentive scheme.

2. To study the socio-economic profile of the incentive availed entrepreneurs.

3. To study the employment effect of the incentives for industrialisation.

4. To study the forward and backward linkage effects of the industrial units with a view to assess their impact on further industrialisation.

5. To analyse the preference and problems of the units located in industrially backward taluk.

6. To analyse the impact of graded incentives on the location decision and the impact of incentives on the development of entrepreneurship.
I.4 HYPOTHESIS:

1. Government incentives are the important factors encouraging industrial entrepreneurship.
2. A large number of incentive availed entrepreneurs are from high social and economic profile.
3. The extent of availment of institutional facilities by the industrial units in the industrially developed taluk is greater than by the units in industrially backward taluks.
4. Higher rate of incentives and concessions offered by the Government in industrially backward taluks has attracted entrepreneurs to set up their units in industrially backward taluks.
5. Capital investment subsidy encourages entrepreneurs to set up units with high capital intensity rather than labour intensive units, and
6. Industrial units of industrially backward taluk have more problems than units in advanced taluks.

I.5 NEED FOR THE STUDY:

Industries are the key force for rapid economic development. Recognising the role played by industries in economic development, the Government of India as well as State Governments have placed special emphasis on the development of industries in the industrially backward region. A package of incentives has been introduced from time to time to induce industries in the backward regions.
There are number of studies pertaining to the impact of incentives on industrial development in India and abroad. However the problem existing in selected backward region, i.e., slow industrial growth in the extremely backward taluk compared to the moderately developed even after the introduction of incentives and impact of graded incentives on the industrial development of a region is not attempted so far in the selected region. Therefore the present study "Impact of incentives On the Industrial Development -A Case Study of Dakshina Kannada" assumes relevance.

It is interesting to analyse the impact of incentives on industrial development in the developed, backward and highly backward taluks of a district. The Composite Index of Industrial Development calculated by Hemalatha Rao shows that Mangalore taluk is highly developed, Bantwal is backward and Belthangady taluk is extremely backward in terms of industrial development. This study attempts to assess the impact of financial incentives particularly investment subsidy on the industrial development of regions with different levels of industrial development. This is a unique study as it covers number of aspects of industrialisation in the backward region.

This study is necessary and relevant as it evaluates the impact of graded incentives on industrial development and also analyses taluk wise disbursement of subsidy in the district over a period of time and its impact on the industrial

2. These studies have been discussed in the chapter II, under Review of Important Studies.
development of the region. A study of this nature is very essential as it enlightens about the implications of the policy and constitute the basis for the formulation of policies of industrial incentives and development.

I.6 SCOPE OF THE STUDY:

This study is an attempt to analyse the impact of incentives particularly financial on industrial development of regions with different levels of industrial development. The important incentives availed by the entrepreneurs in this study region are Capital Investment subsidy, sales tax concession and financial assistance from All India and State Level Financial Institutions. The evaluation is made through the benefitted units in the region of Dakshina Kannada district of Karnataka state. The number of large scale industrial units is limited in the study region. Therefore this study has taken into consideration only small scale industrial units registered in the District Industries Centre and who have availed capital investment subsidy during the period between 1982 and 1996. During this period the industrial units of Dakshina Kannada district have enjoyed various incentives and concessions offered by the Central and State Government as well as financial assistance from All India and State level financial institutions.

I.7 METHODOLOGY:

This study covers the period from 1982-83 to 1995-96 and is based on primary as well as secondary data. Survey-cum interview method is adopted to assess the impact of incentives on industrial development in the study region.
Dakshina Kannada District of Karnataka State is selected for analysis of the impact of incentives on industrial development. Dakshina Kannada district has the problem of intra-regional disparities in industrial development. On the basis of Composit Index of industrial development, taluks of Dakshina Kannada are divided into four categories. Mangalore taluk is grouped as highly developed, Udupi taluk as average, Kundapur, Puttur, Karkala and Bantwal as backward and Belthangady and Sullya as highly backward taluks.

Revised Package of Incentives and Concessions (1988-93) has classified the taluks of Dakshina Kannada into three zones. It categorised Mangalore taluk as highly developed, Udupi taluk as developing and other taluks as backward. But from 1st Oct. 1990 onwards Mangalore taluk was included in zone II and was eligible for 15% capital investment subsidy along with Udupi taluk, while other taluks in the district were eligible for 20% capital investment subsidy. However, with the revision of incentives scheme since July 1993 all the taluks in the district are eligible for 25% capital investment subsidy.

There was graded incentive scheme in the Dakshina Kannada district during the period between 1988 and 1993. Therefore, in this study three taluks were selected for study. They are Mangalore, Bantwal, Belthangady taluks. Mangalore is extremely developed, Bantwal is backward and Belthangady is highly backward taluk with regard to small scale sector.

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units in Mangalore taluk enjoyed only 15% capital investment subsidy while new units in Bantwal and Belthangady taluks enjoyed 20% capital investment subsidy during the period between 1988 and 1993. In addition to the 20% capital investment subsidy the new units in Bantwal and Belthangady taluks enjoyed sales tax exemption for a period of seven years from the date of commercial production.

There has been a tremendous growth in Mangalore taluk, whereas it is not so in Bantwal and Belthangady taluks although there have been additional incentives for the growth of industries. However performance in the Bantwal taluk is comparatively better than in the Belthangady taluk. Those new industrial units established after the introduction of graded incentives in the Bantwal taluk have been located very near to Mangalore taluk i.e., the developed region and also in and around towns.

In the backward taluks no physical incentives are offered. Therefore, the two backward taluks are considered as suitable to measure the impact of financial incentives. The size of sample is determined on the basis of the annual statistics published by the District Industries Centre. For these valid reasons, Mangalore, the highly developed taluk, Bantwal, the backward taluk and Belthangady, the highly backward taluk have been selected as a study area in Dakshina Kannada district.

6. The District Industries Centre collects and publishes data as Annual Reports on the industrial progress of the region and also as a Directory.
I.8 SELECTION OF STUDY UNITS:

It is proposed to consider small, medium and large scale industrial units for the study. However, the growth of large and medium scale industries in this district particularly in the backward taluks is insignificant. Hence, only small scale manufacturing units have been taken for the study. The registered small scale units which have received capital investment subsidy from the District Industries Centre, have been selected.

In Dakshina Kannada district 3325 small scale industrial units have availed capital investment subsidy from DIC during the period between 1982-83 and 1995-96. In this study 180 small scale units have been selected by simple random sampling method as sample units which constitute 5.41 percent of the total number of incentive availed units in the district during the period between 1982 and 1996. These sample units have been selected from three taluks i.e., Mangalore, Bantwal and Belthangady. The study of talukwise disbursement of capital investment subsidy between 1992-93 and 1994-95 reveals that of the total subsidy availed units in the district, Mangalore taluk alone accounted for 37.43%, Bantwal 8.14% and Belthangady 2.43%. Hence of the total sample size of 180 units, 120 units have been selected from Mangalore taluk and 30 units each from Bantwal and Belthangady taluks. Table I.1 gives the categorywise distribution of sample units.

Table (I.1) reveals that almost all types of industrial units are selected for the study except leather industry. Share of leather industry is as low as 2.46% in terms
TABLE 1.1
Categorywise Distribution of Sample Units

<table>
<thead>
<tr>
<th>Category</th>
<th>Mangalore</th>
<th>Bantwal</th>
<th>Belthangady</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Automobile</td>
<td>09</td>
<td>01</td>
<td></td>
<td>10</td>
</tr>
<tr>
<td>Electricals and Electronics</td>
<td>09</td>
<td>01</td>
<td>01</td>
<td>11</td>
</tr>
<tr>
<td>Ferros and Non Ferros</td>
<td>02</td>
<td>01</td>
<td>01</td>
<td>04</td>
</tr>
<tr>
<td>Food and Tobacco</td>
<td>19</td>
<td>06</td>
<td>14</td>
<td>39</td>
</tr>
<tr>
<td>Gass and Ceramics</td>
<td>08</td>
<td>-</td>
<td>02</td>
<td>10</td>
</tr>
<tr>
<td>Job Works</td>
<td>10</td>
<td>01</td>
<td>01</td>
<td>12</td>
</tr>
<tr>
<td>Mechanical Engineering</td>
<td>13</td>
<td>03</td>
<td>01</td>
<td>17</td>
</tr>
<tr>
<td>Paper/Printing</td>
<td>07</td>
<td>01</td>
<td>01</td>
<td>09</td>
</tr>
<tr>
<td>Rubber and Plastic</td>
<td>14</td>
<td>04</td>
<td>05</td>
<td>23</td>
</tr>
<tr>
<td>Textiles</td>
<td>02</td>
<td>01</td>
<td>01</td>
<td>04</td>
</tr>
<tr>
<td>Wood</td>
<td>02</td>
<td>05</td>
<td>01</td>
<td>08</td>
</tr>
<tr>
<td>Chemicals</td>
<td>07</td>
<td>04</td>
<td></td>
<td>11</td>
</tr>
<tr>
<td>Others</td>
<td>18</td>
<td>02</td>
<td>02</td>
<td>22</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>120</strong></td>
<td><strong>30</strong></td>
<td><strong>30</strong></td>
<td><strong>180</strong></td>
</tr>
</tbody>
</table>

Source: Survey data.

of number of units, 0.12% in investment and 0.55% in the number of employed in SSI units in Dakshina Kannada District. Therefore leather industry is not included in the study.

I.9 SOURCES OF DATA:

Both primary and secondary data have been used in this study. This study is mainly based on primary data, collected by personal interview with the proprietor or partners.

7. District Industries Centre, Mangalore.
of the industrial units. Entrepreneurs are interviewed with the help of well-structured questionnaires (the specimen of the questionnaire is given in the appendix). Information about the location of the units, main input, main output, profile of the entrepreneurs, sources of finance, sources of raw material, employment, marketing, type of incentives availed, impact of incentives, performance and problems of the industrial units have been collected. Opinion of the entrepreneurs about the government incentives, problems in availing the incentives as well as suggestions are also collected.

Collection of primary data from the entrepreneurs involved much time and physical strain as the entrepreneurs were reluctant in disclosing the information. Efforts were made to interview the entrepreneurs through informal channels which helped to collect relatively more reliable information. Hence it should be noted at the very outset that information collected from the entrepreneurs would give only a broad trend and not the accurate picture on the economic aspects of the performance of the unit. However, during the field visit, the researcher could observe and collect some facts which were also included in the study.

The secondary data were collected from the various sources, which are enlisted below.

1. Annual Survey of Industries (ASI),
2. Economic Survey, Planning Department, Government of Karnataka, Bangalore.
3. Data from the Directorate of Industries and Commerce, Government of Karnataka, Bangalore.
5. Annual Reports and Operational Statistics, KSFC, Bangalore.
6. District Statistical Abstract of Dakshina Kannada (Kannada version) various issues, published by District Statistical Officer, Dakshina Kannada, Mangalore.
7. Economic and Social Survey of Dakshina Kannada (Kannada version) published by District Statistical Officer, Dakshina Kannada, Mangalore.
8. Progress of Industrial Development of Dakshina Kannada, various issues, published by District Industries Centre, Mangalore.

I.10 TOOLS OF ANALYSIS:

Following are the important tools used in this study.

i) Hirschman - Herfindhal Index (H.H.Index):

The H.H. Index has been used to measure the degree of regional concentration of industries.

\[ H.H. \text{ Index } = \sum_{i} P_i^2 / 100 \]

Where \( P_i \) = Percentage share of region i in total industrial employment.

The method is similar to the method used by Uday Sekar.8

maximum value of the H.H. Index is 100 when the entire manufacturing sector is located in one region. The minimum value is obtained when industrial employment is distributed equally in all regions.

ii) Average Annual Growth Rate\(^9\):

The average annual growth rate shows the average percentage change of variable from base year to current year. The formula is:

\[
\text{Average Annual Growth Rate} = \left( \frac{\text{Current year value} - \text{Base year value}}{\text{Base year value}} \right)^{\frac{1}{n}} \times 100
\]

Where, \(n\) refers to number of years.

iii) Location Quotient\(^10\):

Location Quotient indicates the degree of concentration of particular industry at a particular region.

\[LQ = \frac{\text{eid/ed}}{\text{E}_i/E} \]

- \(\text{eid} = \) employment in a given industry in a given region
- \(\text{ed} = \) aggregate industrial employment in a given region
- \(\text{E}_i = \) aggregate employment in a given industry at the State level
- \(\text{E} = \) aggregate employment at the State level
- \(i = \) 1........n industry groups in the region
- \(d = \) industrially homogenous region.

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Then $Lid = LQ$ for the $i$th industry in the $d$th region

\[
Lid = \frac{e_{id}/ed}{E_j/E_t}
\]

If $Lid = 0$ - $i$th industry is not located in the district/region at all.

$Lid < 1$ - $i$th industry contributes less than proportionate share to employment in region 'd' as compared to the state average.

$Lid > 1$ - $i$th industry in the region 'd' contribute more than proportionate share and is assumed to be highly concentrated in region 'd'.

$Lid = 1$ - $i$th industry is evenly distributed over all the regions.

iv) Benefit - Cost ratio:

In calculating the benefits and cost of financial incentives, the method used by William K. Tabb\(^1\) and Sadhak\(^2\) is adopted in this study.

v) Content score:

The method of content score is used to find out the factors influencing location of industry and motivating factors for the development of entrepreneurship. This method is used by Sazama,\(^3\) Sadhak\(^4\) and Bharathan.\(^5\) The content score is a score secured by each location factor. In order to get content score for each factor, weights are assigned to each rank and

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got the weighted score for factor. The weighted score are the content scores.

Further some other simple tools such as percentages, averages, ratios etc. are used in this study.

1.11 LIMITATIONS OF THE STUDY :

Following are the important limitations of this study.

1. The study examines the impact of capital investment subsidy and other financial incentives on the development of small scale industries. There would be remarkable difference in the impact where physical incentives were provided and large scale industries were considered.

2. Required secondary data are not readily available at DIC. DIC has the data only about registered units. Even petty shops are considered as SSI units. Inspectors of Factories have datas on industries coming under the Factories Act. The ASI data does not go into Taluk level. Therefore data collected from these sources are carefully used. Therefore secondary data used in the study cannot be compared easily with one another.

3. The data collected through questionnaire and response of the entrepreneurs need to be carefully taken into account as it cannot reveal the fact accurately, but depicts the trend only.

4. Data relating to industrial activity in a given district also presented some problems. There are
different promotional and supervisory agencies of the
Government with which these industrial units need to
be registered either to get promotional benefit or to
enable the bodies to enforce certain supervisory
measures. Because of such multiplicity, one often
comes across different statistics relating to the
same industry. At the end of 1992, the employment in
Beedi industry, according to the labour officer, was
1,84,115, but the statistics issued by the DIC
regarding the employment under all categories of SSI
units (which also includes Beedi Industries) for the
same period was mere 97,088 !.

I.12 CHAPTERISATION :

The study is divided into eight chapters.

Chapter - I is introductory in nature and deals with the research problem, Objectives, hypothesis, need and scope of the study. Besides these, it spells out the methodology, selection of the study units, sources of data and limitations of the study. This chapter forms the base of the analysis of the investigation given in the succeeding chapter.

Chapter - II, 'Industrialisation and Regional disparities - a conceptual framework' analyses the need for industrialisation, reviews the theories of industrial location and growth related theories, theories of regional disparity, need for government intervention and the strategy of industrial location policy. At the end, the important studies are reviewed.
Chapter - III, 'Disparities in industrial growth - Problems and Policies in Karnataka' analyses regional disparities in industrial development in Karnataka and various promotional measures undertaken by the government.

Chapter - IV, 'Dakshina Kannada District - a brief industrial profile' discusses industrial activity and regional disparity in industrial development in Dakshina Kannada district. Various facilities offered by the Government to promote industrialisation is also discussed.

Chapter - V, 'Nature and direction of industrial development in Dakshina Kannada District' - analyses the profile of the units, capital intensity, sources of finance, pattern of assistance, linkages pattern, impact of incentives, cost and benefit of incentives and major constraints faced by the sample industrial units.

Chapter - VI, 'Impact of incentives on location decision' analyses the important location factors, influence of incentives on location decision and impact of graded incentives on the location decision of the sample industrial units.

Chapter - VII, 'Incentives and development of entrepreneurship' deals with the factors influencing the development of entrepreneurship, profile of the sample entrepreneurs and effectiveness of the entrepreneurship development programmes.

Chapter VIII, is the concluding chapter and gives summary of observations and conclusion. The important findings that emerged from the study have been given. Also, some suggestions have been given on the issue taken for the study.