Chapter - V

NATURE AND DIRECTION OF INDUSTRIAL DEVELOPMENT IN DAKSHINA KANNADA DISTRICT - A FIELD STUDY
CHAPTER V

NATURE AND DIRECTION OF INDUSTRIAL DEVELOPMENT
IN DAKSHINA KANNADA DISTRICT

V.1. INTRODUCTION:

In the foregoing chapter the nature and extent of industrial development in Dakshina Kannada district is analysed in terms of published data. It has been noted that incentives have played a crucial role in inducing industrial investment in the district. There has been a significant growth in industries, industrial investment and employment. But the contribution of incentives in the industrial promotion in the Dakshina Kannada district requires further confirmation. A field study is, therefore conducted to analyse the extent of influence of incentives in the industrial investment and the constraints remained inspite of the introduction of incentives.

In order to study the strength and weakness of the Government incentives, its influence on location decision and the direction of the industrial development, a sample of 180 industrial units which received financial and other incentives have been chosen through random sampling. The data received through questionnaires and personal interviews are used to analyse the nature and direction of the industrial development in the study region.

V.2 LOCATION OF SAMPLE UNITS:

The sample units are taken from all the four types of areas viz., industrial estate, industrial area, town and
village inorder to give wider coverage to this study. Among the three taluks selected for the study, only Mangalore has the facility of industrial estate and industrial area. Table V.1 gives details about the location of sample units.

**TABLE V.1**

<table>
<thead>
<tr>
<th>Types</th>
<th>Mangalore</th>
<th>Bantwal</th>
<th>Belthangady</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Industrial Estate</td>
<td>13</td>
<td>-</td>
<td>-</td>
<td>13</td>
</tr>
<tr>
<td>2. Industrial Area</td>
<td>55</td>
<td>-</td>
<td>-</td>
<td>55</td>
</tr>
<tr>
<td>3. Town</td>
<td>40</td>
<td>03</td>
<td>-</td>
<td>43</td>
</tr>
<tr>
<td>4. Village</td>
<td>12</td>
<td>27</td>
<td>30</td>
<td>69</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.

The above table reveals that large proportion of the sample units located in villages are found in Bantwal and Belthangady taluk while in Mangalore taluk 90% of the sample units are located in the industrial estates (11%), industrial areas (46%) and in urban centres (33%). Bantwal taluk comprises of 80 villages and 2 towns while Belthangady taluk comprises of 81 villages only. Mangalore taluk comprises of 77 villages and 2 towns.

Thus in Mangalore taluk industries are concentrated in urban centres, industrial areas and industrial estates as they enjoy economies of agglomeration, nearness to market and

infrastructural facilities. Although the infrastructural facilities are not so developed in Bantwal and Belthangady taluks, the industries established in villages, certainly contribute to the development of the rural area.

Thus industrial units setup in the developed taluk like Mangalore enjoy the facilities of the industrial areas and estates which are absent in the industrially backward taluks. Thus the third hypothesis of this study i.e., the extent of availment of institutional facilities by the industrial units of industrially developed taluk is greater than that of the units in the industrially backward taluks, is found to be correct.

V.3 LOCAL AND NON-LOCAL UNITS:

Industrial units in any region can be classified as local and non-local units. According to John Rees, firms which maintain head offices in study region are ‘local firms’ and the firms having headquarters outside the study region are ‘non-local firms. Since the main objective of this study is to assess the impact of incentives on the location decision, on the base of the firms, units are defined as local and non-local units. Local unit is a unit promoted by an entrepreneur belonging to the same taluk. Other than local units are called ‘Non-local’ units usually with their base in other taluks.

This type of classification is necessary to analyse the extent of the impact of the government incentives and other factors in

attracting entrepreneurs to the designated area. The data in the Table V.2 indicates the native place/base of the entrepreneurs.

**TABLE V.2**

<table>
<thead>
<tr>
<th>Taluk</th>
<th>Local</th>
<th>Non-local</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mangalore</td>
<td>96 (80%)</td>
<td>24 (20%)</td>
<td>120</td>
</tr>
<tr>
<td>Bantwal</td>
<td>22 (73%)</td>
<td>8 (27%)</td>
<td>30</td>
</tr>
<tr>
<td>Belthangady</td>
<td>25 (83%)</td>
<td>5 (17%)</td>
<td>30</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>143 (79%)</strong></td>
<td><strong>37 (21%)</strong></td>
<td><strong>180</strong></td>
</tr>
</tbody>
</table>

Source: Survey data.

Note: Figures in the brackets indicate percentage to total.

As seen in the above table the share of non-local entrepreneurs is high in Bantwal taluk and low in Belthangady taluk. In the developed taluk i.e., Mangalore, the non-local entrepreneurs are motivated to setup their units due to infrastructural facilities like industrial estates and industrial area, investment subsidy and nearness to market. Government incentive policy along with nearness to market and personal factors have motivated the non local entrepreneurs to locate their units in Bantwal and Belthangady, the industrially backward taluks. The analysis of the base of the entrepreneurs highlights the impact of the locational incentive policy adopted by the Government of Karnataka.

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4. Survey results, discussed in the next chapter.
V.4 Size of the Industrial Units:

The size of the industrial units can be decided in terms of employment and the project cost. The table V.3 gives the classification of industrial units according to the size of employment.

**TABLE V.3**

Classification of sample units according to the size of employment

<table>
<thead>
<tr>
<th>Employment size</th>
<th>Mangalore</th>
<th>Bantwal</th>
<th>Belthangady</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>A B C</td>
<td>A B C</td>
<td>A B C</td>
</tr>
<tr>
<td>Upto 10 persons</td>
<td>62 349 5</td>
<td>16 99 6</td>
<td>25 76 3</td>
</tr>
<tr>
<td>10 to 20 persons</td>
<td>29 417 14</td>
<td>6 101 17</td>
<td>2 31 15</td>
</tr>
<tr>
<td>Over 20 persons</td>
<td>29 2084 72</td>
<td>6 467 78</td>
<td>3 185 92</td>
</tr>
<tr>
<td>TOTAL</td>
<td>120 2850 24</td>
<td>30 667 22</td>
<td>30 292 10</td>
</tr>
</tbody>
</table>

Source: Survey data.

Note: A - Number of units; B - Total employment; C - Average employment.

The distribution of industrial units and employment in the table V.3 indicates the concentration of employment in the industrial units having large employment. In this sample study 57% of the units are employing upto 10 persons, 22% of the units are employing 10 to 20 persons and just 21% units are employing above 20 persons. In Mangalore taluk 24%, in Bantwal 20% and in Belthangady just 10% of the sample units employ above 20 persons. Thus in the backward taluk (Belthangady) the number of units employing more than 20 persons is very low.
Of the 180 sample units, 142 units i.e., 79% of the units which employ less than 20 persons account for just 28% of the total employment provided by all the sample units while 38 units i.e., 21% of the units which employ more than 20 persons account for 72% of the total employment provided by the sample units. The average employment also increases with the size of units. These facts reveal that though the large units employing more than 20 persons in the total number of units is as low as 21%, these units dominate the industrial employment in the sample size and specially in Belthangady taluk where just 10% of the sample units employ more than 20 persons that accounts for 63.36% of the employment generated by all the sample units in the taluk.

Thus the analysis of distribution of the industrial units and employment in the above table indicates that the concentration of units in the industrial units having employment of less than 20 persons is more and likewise the concentration of employment is more in the industrial units having large employment (above 20 persons).

Classification of the Sample Industrial Units according to the Size of Investment:

The size of the industrial units can also be judged in terms of the size of the capital investment (project cost). Table V.4 gives the distribution of sample units according to the size of the investment and Table V.5 gives Taluk-wise distribution of the sample units according to the size of investment.
### TABLE V.4

Distribution of the sample units (180) according to the size of investment

<table>
<thead>
<tr>
<th>Size of investment</th>
<th>Number of units</th>
<th>Total Investment (project cost)</th>
<th>Total Employees</th>
<th>Investment Per Unit</th>
<th>Investment Per worker</th>
<th>Employees per unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Upto Rs.10 lakhs</td>
<td>115</td>
<td>498.425</td>
<td>1965</td>
<td>4.33413</td>
<td>0.46600</td>
<td>9</td>
</tr>
<tr>
<td>2. Rs.10-25 lakhs</td>
<td>24</td>
<td>487.75</td>
<td>744</td>
<td>16.81896</td>
<td>6.65557</td>
<td>26</td>
</tr>
<tr>
<td>3. Above Rs.25 lakhs</td>
<td>36</td>
<td>2137.00</td>
<td>2000</td>
<td>59.36111</td>
<td>1.0685</td>
<td>56</td>
</tr>
</tbody>
</table>

**TOTAL** 180  3123.175  3809  17.35097  0.81994  21

**Source:** Survey data  
**Note:** Figures in the brackets indicate percentage share.

### TABLE V.5

Taluk wise distribution of the sample units according to the size of investment

**Table V.5a:** Mangalore Taluk

<table>
<thead>
<tr>
<th>Size of investment</th>
<th>Number of units</th>
<th>Total Investment (project cost)</th>
<th>Total Employees</th>
<th>Investment Per Unit</th>
<th>Investment Per worker</th>
<th>Employees per unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Upto Rs.10 lakhs</td>
<td>70</td>
<td>361.16</td>
<td>668</td>
<td>5.15942</td>
<td>0.54065</td>
<td>10</td>
</tr>
<tr>
<td>2. Rs.10-25 lakhs</td>
<td>23</td>
<td>412.75</td>
<td>611</td>
<td>17.94565</td>
<td>0.67553</td>
<td>27</td>
</tr>
<tr>
<td>3. Above Rs.25 lakhs</td>
<td>27</td>
<td>1620.00</td>
<td>1571</td>
<td>60.00000</td>
<td>1.03119</td>
<td>58</td>
</tr>
</tbody>
</table>

**TOTAL** 120  2393.91  2850  19.94925  0.83996  24
Table V.5b: Bantwal Taluk

<table>
<thead>
<tr>
<th>Size of investment</th>
<th>Number of units</th>
<th>Total Investment (project cost)</th>
<th>Total Employees</th>
<th>Investment Per Unit</th>
<th>Investment Per worker</th>
<th>Employee per unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Upto Rs.10 lakhs</td>
<td>17</td>
<td>(57.00)</td>
<td>270</td>
<td>3.91470</td>
<td>0.24668</td>
<td>16</td>
</tr>
<tr>
<td>2. Rs.10-25 lakhs</td>
<td>6</td>
<td>(20.00)</td>
<td>133</td>
<td>12.50000</td>
<td>0.56390</td>
<td>22</td>
</tr>
<tr>
<td>3. Above Rs.25 lakhs</td>
<td>7</td>
<td>(23.00)</td>
<td>264</td>
<td>45.28471</td>
<td>1.20075</td>
<td>38</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>30</strong></td>
<td><strong>(100.00)</strong></td>
<td><strong>667</strong></td>
<td><strong>15.285</strong></td>
<td><strong>0.68748</strong></td>
<td><strong>22</strong></td>
</tr>
</tbody>
</table>

Table V.5c: Belthangady Taluk

<table>
<thead>
<tr>
<th>Size of investment</th>
<th>Number of units</th>
<th>Total Investment (project cost)</th>
<th>Total Employees</th>
<th>Investment Per Unit</th>
<th>Investment Per worker</th>
<th>Employee per unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Upto Rs.10 lakhs</td>
<td>28</td>
<td>(93.00)</td>
<td>127</td>
<td>2.52553</td>
<td>0.55681</td>
<td>5</td>
</tr>
<tr>
<td>2. Rs.10-25 lakhs</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0.67553</td>
<td>27</td>
</tr>
<tr>
<td>3. Above Rs.25 lakhs</td>
<td>2</td>
<td>(07.00)</td>
<td>165</td>
<td>100.0000</td>
<td>1.21212</td>
<td>83</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>30</strong></td>
<td><strong>(100.00)</strong></td>
<td><strong>292</strong></td>
<td><strong>9.0238</strong></td>
<td><strong>0.92710</strong></td>
<td><strong>10</strong></td>
</tr>
</tbody>
</table>

Source: Survey data
Note: Figures in the brackets indicate percentage share.

The distribution of the sample units (180) according to the size of investment reveals that 144 units (80%) belong to the category of units with the project cost of below Rs.25 lakhs while just 36 units (20%) belong to the investment group of above Rs.25 lakhs. But the share of 144 units (80%) of the investment group of less than Rs. 25 lakh, account for just 31.58% of the total capital investment and 47.49% of the total
employment in the 180 sample units. Therefore investment per unit and investment per worker increases with the increase in the project cost of the units. Employee per unit also increases with the increase in the size of the project cost. This shows that most of the investment and employment are in the high capital intensive projects.

The talukwise analysis of the distribution of sample units according to the size of investment also shows the same trend. In Mangalore and Bantwal taluks 77% while in the extremely backward taluk Belthangady 93% of the units belong to the investment group of less than Rs. 25 lakhs. In Belthangady taluk just 7% of the sample units have the project cost of above Rs. 25 lakhs. Thus comparatively Belthangady taluk has large proportion of small units in terms of project cost. In Mangalore taluk units belonging to the investment group of below Rs. 25 lakh i.e., 77% of the sample units have employed 32.33% of the total capital employed and 44.88% of the employment provided by the sample units. In Bantwal taluk 77% of the units belonging to the same group have employed 30.87% of the total capital and 60.42% of the total employment provided by all the sample units in the taluk. But in Belthangady taluk 93% of the sample units belonging to the small category, have employed just 26.12% of the capital invested and 43.49% of the employment provided by the sample units in the taluk. On the other hand 7% of the sample units in Belthangady taluk belonging to the investment group of above Rs. 25 lakh have employed 73.88% of the total capital and employed 56.51% of the total employment generated by the sample units in that taluk. This shows that most of the investments
and employment are in the high capital intensive projects and this is clearly seen in Belthangady the extremely backward taluk.

The above analysis makes it clear that though the number of units with the project cost of below Rs. 25 lakhs is large, their share in investment and employment is very low. This indicates that most of the investment and employment are in high capital intensive projects in the study region.

The analysis of the size of units reveals the fact that larger units (both in terms of investment and employment) dominate the industrial employment as well as industrial investment in the sample sector. It has also been observed that the capital labour ratio of the sample units increases with the increase in the size of the units.

V.5 CAPITAL INTENSITY:

It is found that capital intensity of the sample industrial units is much higher compared to the SSI units registered in the district. Table V.6 indicates the comparative capital intensity of the subsidy availed sample units and the registered SSI units.

In the above table data relating to the investment in plant and machinery of the sample units is obtained through the questionnaire and adjusted to the amount of subsidy availed by the units (as sanction of investment subsidy is based on the investment on plant and machinery of the unit).

Table (V.6) reveals the fact that the capital intensity of the subsidy availed sample units is much higher
### TABLE V.6

The capital Intensity of the Sample units

<table>
<thead>
<tr>
<th>Region</th>
<th>Investment in Plant &amp; Machinery</th>
<th>Employment</th>
<th>Capital per employee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mangalore taluk</td>
<td>1419.178</td>
<td>2850</td>
<td>0.49795</td>
</tr>
<tr>
<td></td>
<td>(19403.930)</td>
<td>(62335)</td>
<td>(0.31128)</td>
</tr>
<tr>
<td>Bantwal taluk</td>
<td>292.05</td>
<td>667</td>
<td>0.43780</td>
</tr>
<tr>
<td></td>
<td>(1703.95)</td>
<td>(8801)</td>
<td>(0.19360)</td>
</tr>
<tr>
<td>Belthangady taluk</td>
<td>200.969</td>
<td>292</td>
<td>0.68820</td>
</tr>
<tr>
<td></td>
<td>(491.160)</td>
<td>(2524)</td>
<td>(0.19459)</td>
</tr>
<tr>
<td>District Total</td>
<td>(3389477)</td>
<td>(117216)</td>
<td>(0.28916)</td>
</tr>
</tbody>
</table>

Source: 1. Survey Data  
2. Data relating to the District, given in brackets  
District Industries Centre, Mangalore.  
Note: Figures in brackets indicate data relating to SSI units registered in the respective region.

The capital intensity of the Sample units set up during the 1988-93 in Bantwal and Belthangady taluks (when they enjoyed higher rate of investment subsidy and other concessions compared to Mangalore taluk) was much higher i.e. 0.6042 lakhs and 0.8190 lakh respectively.

than the capital intensity of the SSI units registered. This study reveals that the sample units of Belthangady taluk has the highest capital intensity. Of the 30 sample units in Belthangady taluk 28 units belong to the size group of below Rs.10 lakh investment and 2 units belong to above Rs.25 lakh investment groups. These 2 units are Rice Mills with an investment of Rs.75 lakhs on plant and machinery. These two non-local units are attracted by nearness to market and investment subsidy. The capital intensity of the sample units shall be 0.3619 lakh if the above two units are excluded. It is interesting to note that the capital intensity of the sample units set up during the 1988-93 in Bantwal and Belthangady taluks (when they enjoyed higher rate of investment subsidy and other concessions compared to Mangalore taluk) was much higher i.e. 0.6042 lakhs and 0.8190 lakh respectively.
Thus subsidy availed industries are capital intensive compared to the SSIs registered in the district and units set up during 1988-93, particularly in Bantwal and Belthangady as they are still more capital intensive. Government incentives based on capital investment have induced entrepreneurs to invest more and more on capital intensive projects. These findings prove the fifth hypothesis of this study i.e., "capital investment subsidy encourages entrepreneurs to setup units with high capital intensity rather than labour intensive units".

Thus existing incentives have a tendency to encourage capital intensive industries. This may not necessarily have a beneficial impact on the development of the area viewed from the perspective of increased employment.

The Nayak Committee has rightly pointed out that there is an urgent need for selectivity of industries while providing incentives. Suggesting that the incentives should be employment oriented or at least have some relation to employment potential, the committee felt that the industries based on local natural resources, the ancillaries and industries set up under self employment scheme by the educated unemployed would be suitable for applying such employment oriented subsidy policy.

The Estimates Committee went to the extent of suggesting that "in view of the paramount need for creating new

employment opportunities in backward areas, the industries which are approved for location in such areas should be required to give employment to a specified minimum number of persons for becoming eligible for subsidy.\(^6\)

The objective of the balanced regional development is to increase the levels of income of the people in the backward areas and bring them on par with those of developed areas. This has to be through employment creation in the backward areas. Therefore the employment generation should be taken as the objective of incentives administered in the backward areas.\(^7\)

"The existing incentives like investment subsidy, concessional finance, etc. are capital oriented and result in expenditure on machinery, spares and skills not available in the backward regions. The primary need is, therefore to evolve a scheme of incentives, that increase employment opportunities to those living in the target regions through labour-intensive technologies.\(^8\) To ensure an effective utilisation of labour, a pay-role subsidy i.e, subsidy as a proportion of total wage bill paid, has been suggested by Swaminathan.

VI.6 SOURCES OF FINANCE OF THE SAMPLE UNITS:

The field study reveals that the major sources of project cost are financial institutions like KSFC and

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commercial banks. Besides the sample units have received finance from All India Financial Institutions under various schemes. It is found that large units the major recipient of institutional finance as well as investment subsidy. Quantitatively the contribution of the small entrepreneurs may be less but if we consider the financial standing and background of these small entrepreneurs who are mostly first generation entrepreneurs from middle class, the magnitude of their contribution seems to be more.

The growth of the capital investment of the sample units depends on the institutional finance and investment subsidy or on the government participation. Table V.7 shows the share of the government and private source in the project financing of sample units.

**TABLE V.7**

Participation in Financing the project cost of 180 sample units

<table>
<thead>
<tr>
<th>Size of the unit</th>
<th>Number of units</th>
<th>Project cost (Rs. in lakhs)</th>
<th>Own capital from CB/KSFC</th>
<th>Investment subsidy</th>
<th>Public Participation</th>
<th>Private Participation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Upto Rs. 10 lakh</td>
<td>115</td>
<td>480.425</td>
<td>173.925</td>
<td>324.50</td>
<td>57.458</td>
<td>381.958</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Rs. 10 to 25 lakh</td>
<td>20</td>
<td>487.75</td>
<td>159.55</td>
<td>328.20</td>
<td>46.492</td>
<td>373.692</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Above Rs. 25 lakh</td>
<td>36</td>
<td>2137.00</td>
<td>584.75</td>
<td>1552.25</td>
<td>212.663</td>
<td>1764.913</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td>180</td>
<td>3123.175</td>
<td>918.225</td>
<td>2204.95</td>
<td>315.613</td>
<td>2520.563</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Survey data

Note: 7 = 516
8 = 4-6, as investment subsidy reduces promoters contribution.
Figures in the brackets indicate percentage share in the total project cost.
It is clearly seen in the Table V.7 that the government participation (including institutional finance and investment subsidy) is to the extent of Rs.2520.563 lakhs i.e., 80.71% of the total project costs. Government share in the project financing includes institutional finance and investment subsidy while private participation in the project financing includes promoters contribution and borrowing from other sources. The availability of the institutional finance and investment subsidy has reduced promoters' contribution and dependence on market borrowings.

Our survey data reveals that in the project financing private participation is just 19.29% while government participation is as high as 80.71%. It is noticed that all categories of units heavily depend on the institutional finance.

Most of the entrepreneurs of sample units disclosed that they would not have set up their units but for the financial assistance offered by the promotional agencies. Thus promotional agencies by financing the projects have reduced the magnitude of the private participation and thereby enabled entrepreneurs to set up their units. Though entrepreneurs have contributed 29.40% (Rs.918.225 lakh) of the project cost, due to the investment subsidy of Rs.315.613 crores their share is reduced to just 19.29%. Thus the investment subsidy has reduced the financial burden of the entrepreneurs in financing the project to the tune of 10.11% and that of institutional finance has reduced the burden to the extent of 70.6%. Thus major part of the project cost is supplied by the financial institutions along with the government.
V.7 DISTRIBUTION PATTERN OF ASSISTANCE:

It has been observed that the major part of the capital (project cost) is supplied by the Financial Institutions along with the government. But a closer look at the Table V.9 would reveal that this financial assistance has benefitted particularly the large industries with a project cost of above Rs. 25 lakhs. Government participation has increased with the size of units. The units with the project cost up to Rs. 25 lakhs received about 76.6% of the project cost from the Government sources, while the units with the project cost of above Rs. 25 lakhs received about 82.59% of the project cost from the government sources. Thus with the increase in the project costs, private participation declines and that of government participation increases. Thus the units with higher project cost are benefitted at the higher rate by the government assistance in project financing. This aspect is further made clear by the following Table (V.8).

<table>
<thead>
<tr>
<th>Size of the units</th>
<th>No. of units</th>
<th>Institutional Finance</th>
<th>Investment subsidy</th>
<th>Public participation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No. units</td>
<td>%</td>
<td>Per unit</td>
<td>%</td>
</tr>
<tr>
<td>1. Upto Rs. 10 lakhs</td>
<td>115</td>
<td>64.00</td>
<td>14.72</td>
<td>2.82</td>
</tr>
<tr>
<td>2. Rs. 10 to 25 lakhs</td>
<td>29</td>
<td>16.00</td>
<td>14.88</td>
<td>11.32</td>
</tr>
<tr>
<td>3. Above Rs. 25 lakhs</td>
<td>36</td>
<td>20.00</td>
<td>70.40</td>
<td>43.12</td>
</tr>
<tr>
<td>TOTAL</td>
<td>180</td>
<td>100.00</td>
<td>12.35</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Source: Survey data, calculated from Table V.7.
The Table V.8 reveals the fact that per unit financial assistance of the institutions, investment subsidy and thereby public participation in the project cost increases with the increase in the size of the unit. Further the share of the small units in the assistance provided is also very low. In our sample study the units with a project cost of below Rs.10 lakh i.e. 115 units or 64% of the sample units account for just 14.72% of the institutional finance, 18.21% of the investment subsidy and 15.15% of the public participation in the project cost. On the other hand just 20% of the sample units i.e. 36 units whose project cost is above Rs.25 lakhs account for 70.4% of the institutional finance, 67.38% of the investment subsidy and 70.02% of the public participation in the project cost of the total sample units.

This disparity in financing the small and large units reveals that there is a definite trend of favouring large units in the region. Risk capital participation by the industrial units also indicates that the large units have comparatively less risk than the small units. While the industries with a project cost below Rs.25 lakhs, have contributed from own resources about 23.4% of the total project cost, the larger units having project costs of over Rs.25 lakhs contributed from own sources 17.41% of the project costs. If financial risk for the units mainly comprises to the extent of own capital formation, then it is the large units which have derived the maximum benefits in the form of loan and subsidy.

Most of the units in the group with the project cost of below Rs.25 lakhs are promoted by the first generation
entrepreneurs. The study reveals that the 147 units out of 180 units are promoted by the first generation entrepreneurs. 116 entrepreneurs that is about 78.91% out of the 147 have setup units with a project cost below Rs.25 lakhs. The number of sample units with the project cost below Rs.25 lakhs is 144. Of these 116 units (80.55%) are promoted by the first generation entrepreneurs.

Thus compared to the large units with over Rs.25 lakh project cost, the contribution from the public source i.e., financial institutions and investment subsidy is low in the small units with a project cost of below Rs.25 lakh which is mostly promoted by the first generation entrepreneurs. Risk capital participation by the industrial units in the study region indicates that the large units have comparatively less risk than small units.

Talukwise distribution pattern of assistance:

Talukwise distribution of (institutional assistance and investment subsidy) public participation in the project financing gives a clear picture of the distribution of the financial assistance in the district. Table V.9 presence this aspect.

Table (V.9) shows talukwise public and private participation in financing the project cost of sample units. As seen in the table both in Mangalore and Bantwal taluks, the extent of public participation in project financing of sample units is 80%, but in Belthangady the extremely backward taluk it is just 73%.
TABLE V.9
Public Participation in Financing the Project Cost of the sample Gaits (Talukwise)

<table>
<thead>
<tr>
<th>Size of the Units</th>
<th>Mangalore Taluk</th>
<th>Bantwal Taluk</th>
<th>Belthangady Taluk</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No. Participation of</td>
<td>No. Participation of</td>
<td>No. Participation of</td>
</tr>
<tr>
<td></td>
<td>Public Private</td>
<td>Public Private</td>
<td>Public Private</td>
</tr>
<tr>
<td>1. Upto Rs.25 lakhs</td>
<td>93</td>
<td>600.879</td>
<td>169.031</td>
</tr>
<tr>
<td></td>
<td>(77.51)</td>
<td>(78.16)</td>
<td>(21.84)</td>
</tr>
<tr>
<td>2. About Rs.25 lakhs</td>
<td>27</td>
<td>306.923</td>
<td>313.077</td>
</tr>
<tr>
<td></td>
<td>(22.51)</td>
<td>(80.67)</td>
<td>(19.33)</td>
</tr>
<tr>
<td>TOTAL</td>
<td>120</td>
<td>1911.802</td>
<td>482.108</td>
</tr>
<tr>
<td></td>
<td>(79.86)</td>
<td>(20.14)</td>
<td>(79.85)</td>
</tr>
</tbody>
</table>

Source: Survey data
Note: Figures in the brackets indicate percentage.

The small units (units with the project cost below Rs.25 lakhs) enjoyed public participation in the project cost to the tune of 78.16% in Mangalore, 70.04% in Bantwal and 73.01% in Belthangady taluk. Thus small units of developed taluk enjoyed larger share in the public participation than the units in the backward region.

Large units (units with the project cost of above Rs.25 lakhs) enjoyed higher rate of public participation in the project financing compared to the small units. It is also observed that the large units in the backward taluk enjoyed a larger share of public participation than the units in the developed taluk. The large units in Mangalore taluk enjoyed public participation to the extent of 80.67%. But the large units in Bantwal and Belthangady taluks enjoyed public participation to the extent of 82.22% and 96.99% respectively in their project costs. It can be seen from the above table.
that there is no much difference in the public participation between large and small units in Mangalore taluk. But in Bantwal and Belthangady taluk there is much deviation in the public assistance between large and small units, thus large units have benefitted more in the backward taluks. It indicates that the incentives offered by the government have encouraged entrepreneurs to set up capital intensive projects in backward areas. This aspect proves 5th hypothesis of this study capital investment subsidy encourages entrepreneurs to setup capital intensive units.

Thus in Bantwal and Belthangady taluks, (industrially backward taluks compared to Mangalore taluk) the share of public participation in project financing of large units (units with the project cost of over Rs.25 lakhs) is higher than the large units of Mangalore taluk. But in the case of small units (units with the project cost less than Rs.25 lakhs) the share of public participation is high in Mangalore taluk.

The above analysis of project cost in terms of sources of finance and capital structure reveals that the institutional finance and investment subsidy influence significantly on investment.

V.8 LINKAGES PATTERN OF INCENTIVE AVALIED INDUSTRIES:

A number of incentives are offered to develop industries in the backward region. These industries are expected to contribute to the development of that region by providing employment and strong input output linkages within the region. It is expected that the development of industries
in any region creates demand for local raw material and local labour. At the same time there should be demand for the finished goods of the industrial units in the region. If the demand for output comes from productive sector, it will create inter-industry dependence in the region. A strong inter-industry dependence contributes to the massive industrial growth in a region. Therefore strong local linkages would mean more opportunities for the development of region. Thus industries are expected to produce backward and forward linkages. If these linkages are directed outside the region (industry is employing raw materials and labour from outside and sells the products outside the region), the basic purpose of government incentives is not served.

Sandesara observed a weak linkage in rural areas and therefore a poor industrial and economic development in rural areas. Sadhak, Bharathan also observed a weak raw-material linkage in the industries located in backward areas. These weak linkages aggravate the problem of regional disparity due to the faster development of the developed regions.

Industries with the high backward linkage in relation to the local inputs would encourage the location of resource based industries in the region while industries with high output linkage in the region would induce demand pull based units within the region. If the linkages are extended to outside region at greater level, the benefits of

Sadhak, H.: op.cit.
Bharathan: op.cit.
industrialisation will also be shifted to outside region. Then outward linkages adversely affect the development of the local region.

It is therefore necessary to examine whether the incentive availed units are providing right type of linkages which have multiplier effects terms of income and employment within the region. Linkages can be studied terms of the material linkage, employment linkage, sales linkages and inter-industry dependence of sample units.

Raw Material Linkage:

Dakshina Kannada district has not got any important industrial minerals. The district is also not rich in forest resources. So the wood based industries are depending upon raw materials obtained from outside, even agro based industries like rice mill, cashew industries etc. are finding shortage of raw materials within the district. Hence are compelled to depend upon the materials supplied by other districts. To a large extent rubber based industries are obtaining rubber within the district. Remaining industrial units belong to engineering, plastic, chemicals, electricals, ferros and non-ferros and others non-agro industries. These non-traditional non-agro, non-resource based industries are dependent on the outside supply of the raw-materials. This has resulted in the establishment of industries with weak backward linkage.

Table V.10 indicates the major sources of raw materials of sample units.
### TABLE V.10

Major sources of raw materials of sample units

<table>
<thead>
<tr>
<th>Taluks</th>
<th>Sample units</th>
<th>Number of sample units obtaining raw materials within the District</th>
<th>State (other districts)</th>
<th>Country (other states)</th>
<th>Imports</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>District</td>
<td>State</td>
<td>Country</td>
<td>Imports</td>
</tr>
<tr>
<td>1. Mangalore</td>
<td>120</td>
<td>43 (35.00%)</td>
<td>32 (25.83%)</td>
<td>59 (49.17%)</td>
<td>07 (5.83%)</td>
</tr>
<tr>
<td>2. Bantwal</td>
<td>30</td>
<td>09 (30.00%)</td>
<td>16 (53.33%)</td>
<td>14 (46.67%)</td>
<td>-</td>
</tr>
<tr>
<td>3. Belthangady</td>
<td>30</td>
<td>18 (60.00%)</td>
<td>09 (30.00%)</td>
<td>05 (16.67%)</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>180</strong></td>
<td><strong>70 (38.88%)</strong></td>
<td><strong>57 (31.66%)</strong></td>
<td><strong>78 (43.33%)</strong></td>
<td><strong>07 (3.88%)</strong></td>
</tr>
</tbody>
</table>

Source: Survey data.

Note: Figures in the bracket indicates percentages and it does not add up to 100 as units obtain raw materials from different sources.

As given in the above table just 69 sample units i.e. 38.33% of the total sample units obtain raw materials within the district. It is also important to note that 32.22% of the units (58) obtain materials within the state, 43.33% of the units (78) obtain from other states and 7 units (3.88%) import raw materials.

Seventy sample units (38.88%) obtain raw materials within the district. Main industries in this category are rice mill, oil mill, rubber based units, cashew and wood industry fabrication, chemical, automobile industry (partially). Even large cashew and rice mills depend upon the raw materials.
obtained from other districts due to the short supply in the district. It is clear that the district occupies a very insignificant position as a source of raw materials.

The Table V.10 also indicates that a very low input linkage of the units in Bantwal taluk and a very high input linkage of the units located in Belthangady taluk. The industries like wood, chemicals, mechanical engineering, automobile etc. are setup in Bantwal taluk which obtains raw materials from outside the district. These industries are attracted by the investment subsidy and government location policy (discussed in the next chapter). Therefore sample units of Bantwal taluk have low input linkage within the district.

In Belthangady taluk 60% (18) of the sample units obtain raw materials within the district as large number of industries are traditional agro-based industries.

In this sample study 57 units i.e. 31.66% of the total sample units (180) obtain raw materials from outside the district, but within the state. Main industries obtaining raw materials within the state are mechanical engineering, electrical, food and beverages, paper, printing etc. Large proportion of sample units of Bantwal taluk (i.e. 16 units or 53.33%) belongs to this category.

It is alarming to note that 78 units i.e. 43.33% of the sample units depend upon raw materials procured from other states in India. Industries belonging to this category are automobiles, electricals, chemicals, ceramics, mechanical engineering, drugs, plastic, ferrous, PVC pipes, soft drinks, paints, computers, cashew etc.
Of the total sample units 7 (i.e. 3.88%) units are based on imported raw materials. They are plastic, watch, HDP chemical, cashew units. All these units are located in Mangalore taluk.

Thus large proportion of the sample units in Belthangady taluk have backward linkage, but in Bantwal and Mangalore taluks it is very low. Thus various facilities and incentives have led to the establishment of non-traditional, non-agro, non-resource based industries which are depending upon outside supply of raw materials, with weak backward linkage in the district. It is clear that locally available raw-material is not strong attractive factor for industries. This fact supports the view that it is the financial incentives which contributes to the development of industries in a region.

Weak raw-material linkage of the incentive availed industries and their dependence on outside market exerted external control over the supply of raw materials which generates non-local multipliers, consequently this may have adverse effect on the growth of local employment in Dakshina Kannada district. If the industries are using locally produced raw-materials, demand for locally produced material will increase and thereby will generate more employment and income and will have multiplier effect. As the large proportion of sample units obtain raw material from outside Dakshina Kannada district, the district is deprived of the benefit of indirect generation of employment and income and its multiplier effect.
Employment linkage:

The major objective of the industrial development in the backward region through incentives is to create sufficient employment opportunities for the local people. Hence it is necessary to study the employment linkage (backward linkage) of the industrial units assisted by the incentive schemes.

The study of 180 sample units reveals that these units could create jobs for 3089 persons, out of 3809 persons 3539 persons are local and 270 are from outside the district (92.91% jobs went to local people while 7.09% jobs to outsiders).

Of the 180 sample units, 37 units are non-local units which have employed 924 persons i.e. 24.26% of the total jobs created by the total sample units. Different financial incentives of the government have attracted 13 units in Bantwal and Belthangady. They have created job opportunities for 342 persons i.e. 35.66% of the employment created by 60 sample units in 2 taluks. The Units set up by the non-local entrepreneurs have provided employment to 175 persons (59.93%) in Bantwal taluk and to 167 persons (25.03%) in Bethangady taluk. In Mangalore taluk the contribution of non-local entrepreneurs to create employment is 20.4% (jobs to 582 persons).

Thus incentive availed units have created 3809 jobs and 92.91% of the jobs went to local people. This indicates
that there is a strong employment linkage within the district, a favourable trend. Under the policy of incentives and concessions. Government of Karnataka has required incentive availing units to provide 80% of the jobs to the local people as a necessary condition to avail incentives.

The weak input linkage in the district rules out the development of resource based industries and increases the uncertainty regarding raw materials. This has reduced indirect employment opportunities in the region as local resources i.e. raw materials are utilised to the limited extent by the incentive availed units. However there is a strong direct employment linkage in the region.

Sales linkage:

Strong sales linkage i.e. the sale of products in the local market enhances the secondary employment opportunities in trade and business of the region and thereby facilitates the development of the region. If the local sales linkage is strong, the demand based units set up in the region would derive advantages through agglomeration of industries. If the demand for output in the non-local market is strong there will be low forward linkage, which adversely affects regional development.

Table V.11 shows sales linkage of 180 sample units.

**TABLE V.11**

Sourcewise breakup of sales of sample units (180)

<table>
<thead>
<tr>
<th>Taluks</th>
<th>Local market</th>
<th>State market</th>
<th>National market</th>
<th>International market</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mangalore</td>
<td>113</td>
<td>57</td>
<td>41</td>
<td>08</td>
<td>120</td>
</tr>
<tr>
<td></td>
<td>(94.17%)</td>
<td>(47.50%)</td>
<td>(34.17%)</td>
<td>(06.67%)</td>
<td></td>
</tr>
<tr>
<td>Bantwal</td>
<td>25</td>
<td>14</td>
<td>07</td>
<td>04</td>
<td>30</td>
</tr>
<tr>
<td></td>
<td>(83.33%)</td>
<td>(46.67%)</td>
<td>(23.33%)</td>
<td>(13.33%)</td>
<td></td>
</tr>
<tr>
<td>Belthangady</td>
<td>30</td>
<td>03</td>
<td>02</td>
<td>-</td>
<td>30</td>
</tr>
<tr>
<td></td>
<td>(100.00%)</td>
<td>(10.00%)</td>
<td>(06.67%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>168</td>
<td>74</td>
<td>50</td>
<td>12</td>
<td>180</td>
</tr>
<tr>
<td></td>
<td>(93.33%)</td>
<td>(41.11%)</td>
<td>(27.77%)</td>
<td>(06.67%)</td>
<td></td>
</tr>
</tbody>
</table>

Source: Survey data.

Note: Figures in the bracket indicate percentages and it does not add up to 100 as units are selling in different markets.

The above table reveals that all the 30 units in the Belthangady taluk market their products in the local market, and only 3 units supply the products to the state market. Thus in Belthangady taluk demand-based units with strong local sales linkage have been setup. But in Mangalore and Bantwal taluks about 47% of the sample units are selling their goods in the non-local market. These units are selling up to 50% of their products in the non-local market. These facts indicate that the sales linkage within the region is strong in the case of units of Belthangady taluk compared to the sample units of Mangalore and Bantwal taluks. As the imitative entrepreneurship is observed in the study area, industrial units market their products outside the district out of compulsion.
movement of the output to the outside market, leads to the
inflow of income from those regions.

**Inter industry linkage:**

Inter industry linkage exists when an industrial unit
either obtains raw material from another industry (backward
linkage) or supplies raw materials to another industry (forward
linkage). The strong inter-industry linkage indicates the
existence of industrial complex in the region. Adel Goryacheva
has described this complex "as a remified chain of functionally
inter-connected industries. The presence of all links in the
chain of inter-connected industries connected by production
techniques and technology can be regarded as a feature of the
maturity of an industrial structure". 11

In this sample survey of the 180 units 36 units (20%) have forward linkage. Mangalore taluk has 30 units and Bantwal
has 6 units with forward linkages but Belthangady taluk has no
industries with forward linkage.

Of the 180 sample units 113 units (62.78%) obtain raw
materials from other industries. Mangalore has 72 units (60% of
the sample units in Mangalore taluk) Bantwal has 6 units
(76.67%) and Belthangady has 18 units (60%) with the backward
linkage.

It is necessary to know whether these industries have
backward and forward industrial linkage within the district. If
they have strong linkage with the units located outside the
district, they may not assist in the development of the region.

11. Goryacheva Adeli: "Industrial Complexes in India", in
India: Problems of Development. USSR Academy of Science,
Moscow 1981. p.79.
Hence an effort is made to study the extent of inter-industry linkage within the region. Table V.12 indicates the direction of inter industry linkage of the sample units.

**TABLE V.12**

Direction of inter-industry linkages of the sample units

<table>
<thead>
<tr>
<th>Region</th>
<th>Type of linkage</th>
<th>Number of units</th>
<th>Location of the units and number of units obtaining/supplying raw materials</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>District</td>
<td>State</td>
<td>Nation</td>
</tr>
<tr>
<td>Mangalore</td>
<td>1. Forward</td>
<td>30</td>
<td>27</td>
</tr>
<tr>
<td></td>
<td>2. Backward</td>
<td>72</td>
<td>18</td>
</tr>
<tr>
<td>Bantwal</td>
<td>1. Forward</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td>2. Backward</td>
<td>23</td>
<td>5</td>
</tr>
<tr>
<td>Belthangady</td>
<td>1. Forward</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>2. Backward</td>
<td>18</td>
<td>7</td>
</tr>
<tr>
<td>Total</td>
<td>1. Forward</td>
<td>36</td>
<td>33</td>
</tr>
<tr>
<td></td>
<td>2. Backward</td>
<td>113</td>
<td>30</td>
</tr>
</tbody>
</table>

Source: Survey data.

The above table reveals that out of the 36 units 33 units have the forward linkage within the district though partially. With regard to the units with backward linkage, of the 113 units just 30 units (26.55%) obtain raw materials from the industrial units located within the districts. The above table also reveals weak forward linkage (just 36 units i.e. 20%) and though 113 units (i.e. 62.78%) have backward linkage, most of them (i.e. 83 units or 73.45%) obtain raw materials from the industries located outside the district. Thus there is no strong inter industry linkage in the region which is essential for the development of mature industrial complex.
V.9 IMPACT OF THE INCENTIVES ON LOCATION DECISION AND ENTREPRENEURIAL DEVELOPMENT:

The field study reveals that government incentives, personal factors, nearness to market and infrastructural facilities play a dominant role in the location decision of the sample units.

The field study also proves the fourth hypothesis of this study i.e. 'higher rate of incentives and concessions offered by the government in the industrially backward taluks attract entrepreneurs to setup their units in the industrially backward taluks.

The study of the government incentives which emerge as one of the important factors encouraging industrial entrepreneurship reveals that a large number of incentive availed entrepreneurs are from high social and economic profile. This proves the first two hypothesis of this study. This is elaborately discussed in the succeeding chapters.

V.10 COST AND BENEFIT OF FINANCIAL INCENTIVES:

In this field study, the limited information that is available does not give an opportunity to calculate the necessary social costs and benefits. However, in the absence of the detailed information, it is possible to calculate approximate cost and benefits in the quantitative terms. For the calculation the cost and benefits, the method adopted by William K. Tabb, and Sadhak is followed here.

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A private industrialist while making investment decision is guided by the return on investment. But the government is looking forward for the social benefit rather than the commercial profit. Government incentives particularly investment subsidy and concessional finance can be considered as indirect form of public investment in backward regions for the development of industries. In the context of broader social objectives of providing employment opportunities to people in the backward regions, investment of public funds at cheaper rate is fully justifiable.  

Important limitation of this analysis of benefits and cost of incentives is the absence of sufficient data to quantify the actual costs incurred towards incentives and benefits. Therefore, only a part of the total cost incurred towards incentives could be measured. It is very difficult to measure the extent of secondary employment generated in the form of linked development and through multiplier effects.

In calculating the cost, entire capital investment subsidy cost, loss of revenue due to sales tax exemption, loss of other incentives like land, electricity, water etc. is calculated at the rate of 2% of fixed capital is taken into account. As the sales tax exemption rate varied from time to time, it is assumed that sample units availed sales tax exemption for 5 years subject to the maximum of fixed capital created by them. Hence sales tax exemption is equal to the fixed capital created by them. Financial institutions provide financial assistance to the industrial units at a concessional rate.

rate. Hence loss of interest of public financial institutions is approximately assumed to be 1.5%. Approximate cost of incentives is given in Table V.13.

**TABLE V.13**

Costs to the government in providing incentives to industries in Dakshina Kannada District (sample sector)

<table>
<thead>
<tr>
<th>Nature of incentives</th>
<th>Costs incurred (Rs. in lakhs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Capital investment subsidy (for 180 sample units)</td>
<td>315.630</td>
</tr>
<tr>
<td>2. Sales tax forgone (20% of the fixed assets created i.e. Rs.1912.297 lakh)</td>
<td>382.459</td>
</tr>
<tr>
<td>3. Other concessions like land, water, electricity etc. at the rate of 2% of the project cost (Rs.3123.175 lakh)</td>
<td>62.463</td>
</tr>
<tr>
<td>4. Interest forgone by the financial institutions (for 180 sample units at the rate of 1.5% approximately - Total assistance by the banks/KSFC is Rs.2204.95 lakh)</td>
<td>33.060</td>
</tr>
<tr>
<td>TOTAL</td>
<td>793.12</td>
</tr>
</tbody>
</table>

Source: a) Table V.7  
           b) Table V.6  
           c) Indicated by the sample units, and  
           d) Table V.7

Table V.13 indicates that the total cost towards providing incentives to 180 sample industrial units is approximately Rs.793.12 lakhs. These industrial units have generated employment for 3809 persons. Out of these 3809 persons, 3539 persons are local labour belonging to Dakshina Kannada district, remaining are from outside the district. The analysis of the survey data in chapter six and seven reveals significant influence exerted by the government incentives in the locational decision and in the development of
entrepreneurship. This additional employment created by the sample units is the benefit to the society. Income earned by these workers will create multiplier effect and would increase the regional income. In addition to the direct employment it will also generate indirect employment through backward and forward linkages, which will have the multiplier effect.

V.12 MAJOR CONSTRAINTS:

The analysis of nature and direction of industrial development in Dakshina Kannada district, various incentives offered and personal interview with the entrepreneurs has revealed some major constraints. Financial input is no doubt a crucial input for the promotion of industrial development, and this input is being provided by the government in terms of institutional finance and investment subsidy. In the field study it is observed that the financial incentives are the most important factors influencing the location decision of the entrepreneurs. In addition to finance there are number of factors like land, labour, raw materials, marketing and transport facilities etc. which are required by the industrial units. An attempt has been made to assess the conditions of the various factors influencing the entrepreneurs in Dakshina Kannada district on the basis of the data from questionnaire and personal interviews with the entrepreneurs, office bearers of association of industrial units and government officials in the district. Here an attempt is also made to assess the impact of incentives on the industrial development, labour, regional development and major constraints in it.
1. Financial constraints:

a) Availability of Finance: Regarding the availability of necessary finance from the financial institutions, a majority of the units are satisfied. Only one unit has stated that it did not get necessary finance. The common complaint made by the sample units is the inadequate working capital provided by the commercial banks. 65% of our sample units expressed the problem of working capital. Smaller the unit greater is the working capital problem. Hence there is a need to scientifically assess the working capital requirements of the small units to ensure optimum utilisation of the existing installed capacity.

b) Rate of interest: Majority of the sample small units stated that the present rate of interest charged by the financial institutions are higher and worked against the economic viability of the units. Therefore there is a need to reduce the rate of interest for small units setup by the new entrepreneurs in a backward region.

c) Procedural formalities: The time lag between loan application and loan sanction increases mainly due to the procedural formalities to be fulfilled by the units. 72 units of the sample units (about 40 percent of the units) have stated that the existing procedures and paper work is too much complicated and cumbersome for them. In addition to that they had to run after so many government and semi government agencies and it becomes difficult for them to fulfil the requirements immediately. In the case of small units, it is a 'one man show'. The entrepreneurs himself should look into all
matters like procurement of finance, production, personal management, marketing etc. But the large units are capable to have specialised personnel to deal with the financial matters and can easily fulfill the requirements immediately. The bank norms are very stringent and lead to inordinate delay in the sanction.

d) Relative share of small units and units of backward taluk:

Compared to the large units with over Rs.25 lakhs project cost, the contribution of financial institution is low in small units with a project cost of below Rs.25 lakhs, which is mostly promoted by the first generation entrepreneurs. In the industrially backward taluks, the public participation in project financing of large units is higher compared to the industrially developed taluks. In the case of small units, the share of public participation is high in Mangalore taluk. This reveals the fact that the financial assistance (institutional finance and investment subsidy) has helped to a great extent to the not so small sector in the backward taluks. This can be attributed to the cumbersome procedures and non-existence of promotional and service network in smaller towns and villages of backward taluk. It is realised that the existing administrative and service agencies are not well suited to meet the requirements of the decentralised sector. Therefore it is desirable that the tiny or the micro enterprise sector is recognised as a separate segment for evolving and implementing promotional policies.

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While KSFC provides term loan, commercial banks provide working capital to industrial units. There is a need to have effective coordination between these two agencies. The authorities of KSFC and commercial banks therefore, should make an earnest effort to see that long and short term loans are extended in adequate amount at the right time to the small industrial units of the backward areas of the district.

2. Power:

The problem of power for industrial purpose is expressed by almost all the sample units. The problem of 'power' is not one of adequate supply but of the quality of power supply. Industries are regularly facing the problem of power cut, power shedding, voltage fluctuation, tripping and problems with the transformers. The cost of power is quite high. In the neighbouring state of Kerala power cost is just half of what it is in Karnataka. In Kerala cost of power is around 6% of total cost, while in Karnataka it is around 13%.

3. Infrastructure:

The availability of the infrastructure is one of the important factors influencing the location decision of the entrepreneurs. In the field study 73 entrepreneurs (40.56%) have accorded priority (14.08% of the total content score) to the infrastructural facilities in their locational decision. In Mangalore taluk 71 units (59.17% of the total sample units in Mangalore taluk) have accorded 246 content score (i.e.

20.5% of the total content score) to the availability of infrastructural facilities like industrial area/estate in their location decision. Thus the availability of the infrastructural facility has emerged as the important factor determining the location decision of the sample units.

Here it is necessary to note that the infrastructural development programme is cornered by Mangalore and Udupi, the industrially developed taluks in Dakshina Kannada district. However at present efforts are being made to develop atleast one industrial estate in each taluk, a welcome feature. There is a need to expedite the process of providing essential infrastructural facilities for the development of industries in the industrially backward taluks.

4. Labour:

Uninterrupted industrial production can be carried out only with the stable supply of required manpower both skilled and unskilled. In the study region it is found that besides shortage of skilled labour and unskilled labour, the labour market problem consists of turnover and absenteeism to some extent.

Industrial units particularly labour intensive units face the problem of shortage of both skilled and unskilled labourers. Hence one of the large scale rice mill set up in the backward taluk has procured labour from outside the district. Labour turnover is another problem relating to the labour market in the district. It is always the smaller units and units in backward areas which suffer from labour turnover. The
attraction of higher wages and other facilities from the larger units and units set up in the developed taluks drive workers from smaller units to larger units. These smaller units impart training to the agricultural workers, but as soon as any bigger unit comes, it attracts workers from the smaller units. A small proportion of the trained workers also go for self employment as number of facilities are offered to them, a welcome feature. But the small units face the problem of imparting training to their new workers. Another problem associated with the units located in the backward taluk is that skilled labourers prefer to migrate to urban centres. Location of units in large urban areas enables them to take advantage of external economies in drawing upon a trained pool of skilled manpower which is absent in the case of units located in the backward rural areas.

Facilities offered to labour:

It is painstaking to note that industrially backward taluks like Bantwal and Belthangady where additional incentives were made available for industrial development is not covered under ESI (Employees State Insurance Act). Industries like chemical, plywood, PVC pipes, automobile springs etc. were set up in Bantwal taluk attracted by government incentive policy. In these units workers are exposed to various risks for which there is no security and insurance as offered in the developed taluk like Mangalore. With the induced industrial development in the backward area, it is also necessary to ensure necessary security and insurance to the labourers which will help to

overcome the problem of supply of labour and also add to labour welfare.

The large number of sample units i.e. 103 units (57.22%) have employed less than 10 workers, hence Factories Act is not applicable to them. On the other hand as many as 142 units i.e. 78.89% of sample units have employed less than 20 workers, hence compulsory provident fund coverage is not applicable to them. However workers employed by these units are just 1073 workers i.e. 28.17% of the total workers employed by 180 sample units. It is observed during the personal interview of the units that the number of workers actually working is more than the number of workers stated by the entrepreneurs. As disclosed by one entrepreneur, they purposefully restrict the number of workers either to less than 10 or 20 in record in order to avoid the coverage under government regulations and requirements.

Excessive regulation of condition of employment makes labour adjustment highly difficult. This has often been cited as a factor restricting employment expansion. It also seems to reduce the overall degree of protection to labour as only a small number are engaged in the highly protected segments leaving an overwhelming majority of workers to work in completely insecure and unprotected conditions in the unorganised sector. Eighth Five Year Plan Document[13] rightly noted the need to rationalise the regulatory framework with a view to provide reasonable flexibility for workforce adjustment.

for effective technological upgradation and improvement in efficiency.

It is also observed in the field study that though statutory provision of minimum wages for workers in the scheduled employment exists, its coverage and implementation is inadequate.

It is interesting to note that on the one side entrepreneurs of the sample units complaint about too much inspections by large army of inspectors and on the other hand inadequate implementation of government measures to improve the terms of earnings, conditions of work and social security to the workers.

In this connection it is apt to note the opinion of Eighth Five Year Plan document that "the implementation machinery which consists of the Labour Administrative Machinery in the states has been far from effective. It is desirable that a greater role is played by the workers organisations, non-governmental voluntary organisations and organised trade unions, in ensuring implementation of minimum wages, instead of enlarging the army of 'inspectors' for this purpose".19

The avowed objective of incentive induced industrialisation in the backward region is to achieve the development of backward region. This will be effectively realised by ensuring necessary percolation of benefits to the working class by improvement in the quality of employment, in terms of conditions of work, social security and earnings. Thus

19. Ibid., p.125.
there is a need for ensuring effective implementation of the programmes of labour welfare and minimum measure of social security for the workers at least in the incentive availed units.

5. Raw materials:

The supply of raw materials by the region is extremely poor. As noted earlier in this chapter, most of the sample units depend on the outside supply of raw materials which has resulted in weak backward linkage. Just 70 sample units i.e. 38.86% of the sample units obtain raw materials within the district, that too partially. Most of the industrial units like automobile, steel, chemicals, etc. obtain raw materials from Maharashtra and Gujarat. Even large scale rice mills and cashew industries procure raw materials from outside the district due to short supply within the district.

This study reveals that larger units with sufficient means at their disposal always maintain larger stocks of raw materials than the smaller units. It is also found that suppliers of raw materials are unwilling to provide inputs on credit to new as well as small units, so that ready cash is required for purchases. Hence uncertainty in raw material supply centres round the smaller units. Similar observations are made by other studies also. Sadhak\(^20\) found uncertainty in raw material supply among the smaller units in Aurangabad district. Jyotsna Paranjape\(^21\) in the study of the units of

Gujarat and Maharashtra also found that the suppliers in developed areas are unwilling to supply inputs on credit to buyers in remote areas.

In addition to this, industrial units located in the backward area has to maintain larger inventories of raw materials, spares and components than would be required in the more developed centres like Mangalore. This will be costly matters particularly to the small units located in the remote areas.

Supply of scarce raw materials:

Though KSSIDC supplies scarce raw materials in the district, its coverage is very limited. KSSIDC supplies only few types of raw materials. Large number of units are deprived of this facility. Only 9 sample units (5% of sample units) claimed to have obtained raw materials from KSSIDC. Hence there is a need to make the list of scarce raw materials supplied by the government is exhaustive. The cumbersome procedures, non-availability of required type and quality, cash sales etc. has discouraged entrepreneurs from approaching KSSIDC. It sells the raw materials to units at uniform prices without considering the level of backwardness of the region. Hence there is a need to conduct detailed survey to ascertain the raw material requirement of different categories of industrial units located in the backward region and supply scarce raw materials at a graded concessional rate on the basis of level of backwardness, distance and size of units inorder to encourage and assist entrepreneurs in the backward region.
Marketing is one of the intractable problems of small industrial units. Marketing becomes uncertain for industries especially for new units in the backward regions mainly due to two factors. Firstly due to credit oriented market new units find lack of necessary funds to produce and supply in the market. Secondly competition from the existing units.

In this sample survey though 168 units (i.e. 93% of the total sample units) supply their products in the local market, they market large proportion of their produce outside the district.

Due to imitative entrepreneurship or existence of similar industries and or due to the low level of demand, industries in these areas are to look forward to other regions for selling their goods. But selling of goods to distant markets require well established distribution channel. The success of a unit seems to depend on whether the entrepreneur has enough contacts to market his product in relatively developed area. New units with meagre financial background set up in backward areas finds it difficult to establish distribution channels in the distant market.

New units setup in the industrially backward regions enjoy sales tax exemption for a period of 6 years. Once this exemption is withdrawn these units may have to compete with the new units enjoying sales tax exemption. One of the leading industrialists felt that the sales tax exemption artificially

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lowers the price of the product and artificially creates demand and once the sales tax exemption time is over, it finds difficult to market its products in the open market. Hence the provision of sales tax exemption creates efficiency artificially which is dangerous to the manufacturers in the long run.

Marketing assistance through National Small Industries Corporation, Karnataka State Small Industries Marketing Corporation etc. has so far been able to cover only a fraction of turnover of the small scale industries. Of the 180 sample units just 12 units (6.67%) claimed to have availed the assistance offered by these corporations.

In the case of small new units the entrepreneur themselves have to manage the show. So they find it difficult to concentrate on all important aspects. The cumbersome procedures and a 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 efficient running of their units.24

7. Incentives:

a) Too many incentives: The incentives and concessions offered by the government to the new units set up in the backward areas form a formidable list. However, field study revealed that many of the incentives and concessions are not actually availed by

the eligible entrepreneurs. Many entrepreneurs are not aware of several incentives offered by the government. Some entrepreneurs who made attempts to get certain benefits have given up, fed up with procedural difficulties, delay and also due to the small amount of benefit. Two important incentives availed by most of the entrepreneurs are capital investment subsidy and sales tax exemption. Study of A.B. Fafale \(^{25}\) (1986) in South Gujarat revealed that just 36% of the sample units have availed more than one incentive. The two reasons for non-utilisation are the ignorance on the part of the entrepreneurs and time consuming procedures and corruption.

b) Delay in sanction and disbursement: Timely availability of capital investment subsidy is crucial as entrepreneurs consider investment subsidy as a part of project financing. Many small entrepreneurs stated that they have borrowed the bridge loan due to delay in sanction and disbursement that when they received subsidy amount after a lapse of 3 to 5 years it was not sufficient even to pay the interest. Due to natural delay in the disbursement of subsidy amount, industrialists feel that it is necessary to treat it as a 'bonus amount' rather than fund helping in times of difficulty.

At present subsidy amount is disbursed part by part. In the absence of lumpsum payment, it leads to wastage of funds. If the amount is given in lumpsum, it will help the

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entrepreneur either to repay the borrowed money or to go for further expansion.

c) Procedural Problem: The cumbersome procedures and a large number of returns that entrepreneurs have to furnish distract them from applying.

a) If the small entrepreneurs concentrate only on the process of availing incentives, they are distracted from production and marketing activities which are very crucial.

b) Units with heavy investment, eligible for large amount of subsidy have professionals, whereas small units cannot afford to do so.

c) Industrial units located in Mangalore (district headquarters) have easy access to government departments and can personally expedite the process. Thus small units and units located in distant backward areas are inaccessible to such advantages. However recently KSFC is empowered to put up the subsidy papers and entrepreneurs need not go to DIC. But entrepreneurs who have borrowed term loans from commercial banks need to approach DIC.

The procedure to avail capital investment subsidy should be made simple and financing agency should be given authority as well as responsibility to claim investment subsidy on behalf of the entrepreneurs.

d) Vast coverage: At present except Bangalore North and South all the 173 taluks of Karnataka are eligible for capital investment subsidy. Thus in Dakshina Kannada district all the
taluks are eligible for 25% capital investment subsidy. According to the government officials two main factors for delay in sanction and disbursement of subsidy are limited funds and too many applications. Though in disbursement preference is given to the small units, no preference is given to the small units located in extremely backward areas. Though the incentive policy of 1988-93 introduced graded incentives and included Mangalore in Zone I (No subsidy) Udupi in Zone II (15% state investment subsidy) and other taluks in Zone III (eligible for 20% subsidy) later on in 1991. Mangalore was included in Zone II. Thus developmental efforts of the government have been spread thinly. To encourage industrial development in extremely backward taluk, it is essential to ensure timely supply of investment subsidy and a higher order of subsidy.

e) Employment generation: Incentive availed units are found to be capital intensive compared to the small scale industrial units registered in the district. This may not have beneficial impact on the enhancement of employment opportunities and development of the backward region. Thus there is a need to encourage labour intensive industries in the backward regions which will provide productive and gainful employment to the people.

f) Sales tax exemption: At present new industrial units set up in the industrially developing areas and growth centres enjoy sales tax concessions and exemptions. Sales tax exemption reduces the price of the final product to the extent of sales tax and makes the product cheaper artificially. This helps the entrepreneurs to market their product and also compete with the
existing units. Once of sales tax exemption is withdrawn, price increases to the extent of sales tax. Now the producers will have the burden of advance payment of sales tax which will be collected from the buyers, along with the marketing problems. However the entrepreneurs during sales tax exemption period are expected to stabilise their production and marketing so that even with the sales tax, they can withstand competition. But in reality sales tax exemption helps the entrepreneurs to move their product as the benefit of sales tax exemption is passed on to the final consumers. If the entrepreneurs can retain the sales tax benefit by hiking the price of the product equivalent to that of the price of the product of other producer who are not enjoying sales tax benefit, product and unit can be made more viable. This may be difficult to the new producers as other new producers may pass on the benefit to the consumers.

Under the incentive programme of 1982-88 of the Karnataka state, Development loan/interest free sales tax loan was given based on the sales tax paid by the producer. Under that scheme the government reimbursed the sales tax collected and paid by the entrepreneur as the interest free loan. This motivates the entrepreneurs to market more and retain the sales tax benefit. If they wish, they can transfer the benefit to the consumers by reducing the price or may induce the producers to improve the quality of the product and thereby make the product competitive, hence they will not suffer even if sales tax exemption is withdrawn.

Under the incentive scheme of 1993, new industrial units are eligible for sales tax concessions in the form of
either sales tax exemption or sales tax deferment with an option exercisable by the entrepreneurs. In the case of industries where returns start immediately after starting of the unit, the sales turnover is quite large and hence it is better to prefer tax exemption, which is for lesser period than the tax deferral.  

Thus sales tax exemption measure should be framed as a measure of making the product competitive and not as a measure of making the product cheaper artificially in the market.

g) Indiscriminative subsidisation: Large number of sample units have complained against the indiscriminative policy which is introduced to encourage industrial units in the district. Underutilisation of installed capacity in the large number of small scale rice mills in the district is attributed to the establishment of large scale mechanised rice mills. But in the case of modern industries like automobile, chemical, plastic etc. underutilisation of installed capacity is attributed to the establishment of similar units, competition and marketing problems.

Hence, after a comprehensive survey and analysis of the market and production conditions, provision of financial assistance and other incentives should be made discriminative i.e. concessions should be made to flow to the sectors or type of industry having vast scope in the region.

h) Lack of coordination between various agencies: Many entrepreneurs complained against lack of proper coordination*.

between various government agencies engaged in the implementation of incentive programmes, particularly DIC and sales tax department. It is observed that the two units have not collected sales tax from the buyers as they are given the certificate of sales tax exemption by the DIC. Later on the sales tax department refused to award sales tax exemption. As a result the entrepreneurs is required to pay the sales tax which they have not collected from the buyers. An entrepreneur in Bantwal taluk has struggled for 6 months to get exemption from conversion fee due to the lack of coordination between the revenue department and DIC.

By these lack of coordination and lack of clarity, poor entrepreneurs are put to hardships and are penalised for the inefficiency and procedural bottlenecks. These experiences discourage entrepreneurs from availing any kind of incentives. Hence it is necessary to pronounce clearly the policy of incentives and provide the same to eligible entrepreneurs. The study of Hemalatha Rao 27 rightly pointed out that “state policy is giving subsidies, incentives and concessions is hailed by the respondent beneficiaries, and except for some problems of their implementation, anomalies in the provision and interpretation difficulties, there was no ‘adverse view’.

8. Problem of Backwardness:

The field study reveals the fact that the industrial units located in the remote and industrially backward regions face the problem of backwardness of the region in many aspects.

The firms located in large urban areas to take the advantage of external economies in obtaining credit, in drawing upon a trained pool of skilled manpower, and in the provision of electricity and other facilities. In addition to this, firms in larger urban areas have better access to government offices, both for obtaining information and technical assistance and for lobbying for legislation, regulations and policies favourable to them. Though Mangalore was included in Zone I (no subsidy region) under the package of incentives of 1988, due to the lobby of the industrialists of Mangalore and the political pressure, Government of Karnataka included Mangalore in Zone II in 1991 and there by making eligible for 15 per cent capital investment subsidy and other incentives. But an industrialist in the backward region does not enjoy the facilities enjoyed by the entrepreneurs in urban areas and in district headquarters.

In the extremely backward regions and remote areas the problem of irregular power cuts, long hours of load shedding, high transport and communication cost, lack of professional services are common. Since local stocks of raw materials are inadequate, units in backward areas have to maintain larger inventories than the more developed centres.

As the government offices and offices of promotional agencies are located in the district headquarters or in urban centres, entrepreneurs located in remote, backward areas find it difficult and expensive to have regular contacts.

Thus major problem of backward areas is lack of facilities. Vast areas have been declared backward, subsidies have been provided and most of the other requirements have been ignored. There are a host of day-to-day operational difficulties, which individually appear to be minor but, when compounded, represent considerable 'hidden costs' and are likely to affect productivity adversely. Many facilities, whose importance tends to be overlooked in large cities because their existence is assured pose major hurdles in the less developed areas.

Even the infrastructural development programme (industrial estate and area) is concentrated in the industrially developed taluks. In the field study it is also found that most of the units located in industrial estate/area of Mangalore taluk has availed investment subsidy and other facilities. Similar observation was also made by other studies. The study of A.B.Fafale revealed that larger proportion of units belonging to industrial estates used incentives compared to non industrial estate units. Thus the above analysis proves that the industrial units of industrially backward taluk have more problems than units in the advanced taluks and the sixth hypothesis of the study is found to be correct.

Hence there is a need to offer higher degree of incentives and preference in the sanction and disbursement of incentives to the industrial units located in backward areas.

V.12 CONCLUSION:

The field study has provided useful information about the nature and direction of industrial development in the study region.

The industrial units in the developed taluk enjoy the benefit of infrastructural facilities like industrial areas and estates. Infrastructural facilities and higher rate of incentives have induced non-local entrepreneurs to set up industrial units. Capital labour ratio of the sample units increases with the increase in the size of the units. Various incentives offered by the government have induced entrepreneurs to set up capital intensive units. The units with the higher project cost are benefitted at the higher rate by the government assistance in project financing. This sample units exhibited weak raw material linkage, high employment linkage and weak inter-industry linkage with the region. The sample industrial units in general and units located in backward taluks in particular face a number of difficulties. Hence there is a need to consider the problems of the industrial units located in the backward regions and offer them graded incentives.