

**Effectiveness of Subsidies to Industries:
A Karnataka Perspective (2005-09)**

**Submitted as part of summer internship in
Fiscal Policy Institute, Bangalore**

by

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Letter of Transmittal

June 05, 2009

Mr. P.R. Devi Prasad IES
Director
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Dear Sir,

**Submission of the Report on Effectiveness of Subsidies to Industries:
A Karnataka Perspective (2005-09)**

I am pleased to submit herewith the Report on Effectiveness of Subsidies to Industries: A Karnataka Perspective (2005-09) . I hereby declare that this is an original work done by me and the findings of this work have not been previously submitted for any publication.



(Annamalai.A.K)

Summer Intern

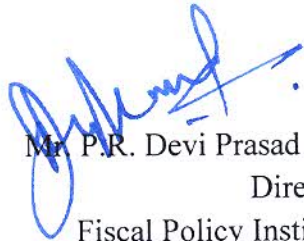
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Certificate

This is to certify that the project titled '**Effectiveness of Subsidies to Industries: A Karnataka Perspective (2005-09)**' submitted by Mr. Annamalai.A.K as a part of Summer Internship is the result of the work done by him at Fiscal Policy Institute, Fiscal Policy Analysis Cell, Finance Department, Government of Karnataka, under my guidance.

Place: Bangalore

Date: 5TH June, 2009


Mr. P.R. Devi Prasad IES
Director
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Table of Contents

Executive Summary	7
1. Introduction.....	8
1.1. Subsidies	8
1.2. Small scale industries in India	8
2. Profile of Small scale Industries in Karnataka.....	10
2.1. Growth of Small Scale industries in Karnataka.....	10
2.2. Supporting Organizations for industries in Karnataka:.....	10
3. Literature review on Industrial Subsidies	12
4. Government Policy on Subsidies.....	15
4.1. The MSMED act, 2006.....	15
4.2. Industry policy of Karnataka (2006-11) on Subsidies	15
4.3. THE KARNATAKA INDUSTRIES (FACILITATION) ACT, 2002.....	17
4.4. Need for New Industrial policy 2009-14 of Karnataka.....	17
4.5. Incentives in Neighbouring States	17
5. Objectives, Sample design and Methodology.....	20
5.1. Objective of the Study	20
5.2. Sample Design	20
5.3. Data Collection	20
5.4. Data Analysis.....	21
6. Socio-economic profile of Sample units.....	22
6.1. Sector-Wise Profile of the Sample units.....	22
6.2. Category-wise profile of the Sample units.....	23
6.3. Economics of investment and employment generation	23
6.4. Region-wise profile of the Sample units.....	24
7. Administration and impact of subsidy	25
7.1. Operation of Subsidy Sanctions.....	25
7.2. Release of Subsidies	25

7.3. Pendency of Subsidies	27
7.4. Impact of Subsidies on Employment Generation	27
7.5. Net Present Value Analysis of the Effectiveness of the Subsidies	28
7.6. Hypothetical Cases for the Issue of Subsidies	30
8. Conclusion and Recommendations.....	34
9. Limitations and Further Scope.....	38
References.....	39
Annexure 1: Growth of Small scale industries in Karnataka 1988-2008	40
Annexure 2: District-wise pendency of subsidies given to industries	41
Annexure 3: Summary of analysis on No. of units of SSIs in Karnataka and their investment and employment generation.....	42
Annexure 4: Summary of analysis on Textile unit investment and their employment generation	43
Annexure 5: Questionnaire on Industrial subsidies to Department of Industries and Commerce	44

Executive Summary

Industrial subsidies are aimed at making the domestic firms competitive, promoting local entrepreneurship, increasing the employment opportunities and overall economic development of the region. This study aims to assess the effectiveness of subsidies given to industries through the employment opportunities created by firms, the financial value of subsidies when it reaches the firms, contribution of the Small Sector Industries (SSI) to the employment.

The existing literature on effectiveness of industrial subsidies was reviewed to apply them to the context of Karnataka. The industrial policies of neighbouring states were also studied. The data for the study was collected from the district offices of Mandya and Ramanagara. The industries were classified based on the sectors in which they operate. The industries were also classified on the basis of the beneficiaries, social and economic status. Regression analysis was used to study the impact of SSIs on employment, subsidies on employment (sector-wise) and for some of them satisfactory results was obtained.

A structured interview was carried out with the officials from Department of Industries and Commerce, Government of Karnataka to gain an understanding of the current procedure on sanctioning and releasing subsidies. Net Present Value (NPV) analysis was undertaken to calculate the impact due to the delay in disbursement of subsidies.

Recommendations for improving the effectiveness of the subsidies given to industries are as follows:

- Inclusion of the employment as a criteria for determining the amount of subsidy to be given to the industries
- Maintenance of the centralized database for the details on SSIs
- Analysis of the debt structure of the firm before release of the subsidies,
- The District Industries Centre (DIC) should identify the potential markets in the regions to introduce new businesses which help in the economic development of the region.

Limitation of this study is that it was done purely from the Government perspective and the entrepreneurs were not asked an opinion on the subsidies they get. Further studies on this subject can include more districts as samples and assess the economic development before and after the introduction of the subsidies.

