

10. Genuineness of the Capital Investment Subsidy: A Study of Gulbarga Division

M Vivekananda

Various fiscal incentives and concessions mark industrial development strategy in India. The important kinds of incentives given are fiscal incentives, financial incentives and market preferences. The scope and volume of concessions have varied from time to time and have been characterised by stiff inter-state competition to attract industrial investment until the recent past. Capital investment subsidy is an important component of such concessions. Promotion of industry in the backward regions is the main objective of introducing the scheme. Therefore, there has been a considerable increase in the fiscal burden to the Government of Karnataka. The study was undertaken to review the process of Capital Investment Subsidy.

The terms of reference for the study were:

- Whether the industry that has availed of subsidy is still functioning
- Whether the investment has been actually made
- Whether the units are manufacturing the products envisaged in the registration certificate and whether these activities are eligible for subsidy as per the state industrial policy
- Whether the subsidy amount has been released to the actual entrepreneurs

Methodology

The scope of the study is confined to Gulbarga Division as per the requirement of the sponsoring agency. The study has used both secondary and primary data. In order to evaluate the utilisation of subsidy by the industrial units, a primary survey of SSI units is carried out. The study covers a sample of 1,500 units in Gulbarga division. While carrying out the survey it was observed that 100 units received subsidy for a second time as additional subsidy. Hence, the number of units that are actually covered in the survey is 1,420. A questionnaire was designed to elicit the information from the sample industrial units.

Results of the Study

Our analysis indicated that:

1. In Gulbarga division the capital investment subsidy was given to 1,420 SSIs during the period 1992–93 to 1997–98. During the seven-year period 13,710 units were registered and about 10 per cent of them received capital investment subsidy;
2. It was found that about 52 per cent of the units are working, 2.68 per cent not traced and 45.4 per cent not working;
3. The rural areas have shown better performance compared with urban areas in terms of

working units. The performance of special category entrepreneur units appears to be better compared with general category;

4. The survival rate of the units is worked out from the year of receipt of subsidy. 39.5 per cent of the units survived for more than 8 years, 51.5 per cent of the units for more than 5 years and 69.7 per cent of the units survived for more than 3 years;
5. An amount of Rs.3,582 lakhs was distributed as capital investment subsidy over a period of six years;
6. It is interesting to observe that the subsidy received by working units accounts for 62 per cent though their number accounts for 52 per cent; (vii) The average production for all categories of units increased from 39.9 lakhs in 1992–93 to 75.9 lakhs in 1997–98 and decreased to 65.8 lakhs by 2000–01;
7. It is interesting to note that about 60 per cent of the working units reported that the subsidy amount was adjusted to outstanding loan;
8. The subsidy has not helped the smaller units to continue production.