CHALLENGES OF DEVELOPMENT AND EMPLOYMENT GENERATION IN UP: THE ROLE OF FINANCIAL INSTITUTIONS

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Abstract

The distinguishing feature of UP's economy is its regional imbalance. The state is divided into four economic regions – eastern, western, central and southern. All these regions have different climatic conditions, soil types and infra-structural development. The western region is the most prosperous region, despite some catching up by other regions in the 1970s and 1980s.The food grain yield per acre in the eastern and central regions is only 80% of the yield in the western region. And the west-to-east gap widens when one considers all crops: the west has witnessed greater diversification of output and has more area under high-value commercial crops. The southern region has made little progress. By the mid-1990s, crop value per acre in this region was on average less than half that for the western region. Consequently, the gap between the southern region and the rest of the state has continued to widen. Thus, to interpret the state as one economic unit in undifferentiated terms would be misleading. Given the wide variations in the level of development in the state, we can expect that factors driving employment growth would also vary. It is likely that in the more developed western region, diversification of employment away from agriculture would reflect the role of demand-pull factors generated by agricultural dynamism, while in the eastern, central and southern regions distress-push can play a role in increasing the volume of non-farm employment.

After 1991, banks have become the spine for the development of the economy on all parameters in any state. The banking sector of Uttar Pradesh is predominated by nationalized banks like SBI, Regional Rural Banks, Foreign Banks and also Private Banks. But the state's credit deposit ratio stands at 43.6% (March 2011), which is lower than the national level of 75.1% during the same period. High credit ratio represents effective functioning of banking sector. Again, there is diversification of credit ratio from one region to other.

Introduction

A significant change in inequality in income and wealth is possible only in a longer term perspective. Employment structure of an economy is normal instrument that can cause a change in inequality either way, i.e. an increase or a decrease in the inequality. Other economic instruments such as target group policies and programmes of government have a short term impact, but the redistribution through employment is sustainable. Since function of government within the administrative and fiscal constraints, the target group programmes normally have a marginal impact on income redistribution. Income of labour enables flow of resources across income classes of people and across the social groups. Flows of income across locations are influenced both by assets available and by other modes of creating employment opportunities. However, income generated by employment of migrant labour, facilitates flow of resources across regions for a given regional distribution of capital assets. Employment and equity of income across classes of people and across regions are, therefore, closely related to each other in the long term.

Financial Inclusion is a key factor in shaping the growth process of the economy. Financial Inclusion is an integral part of the growth process. Credit is one of the very important inputs of development. The timely availability of credit at an affordable cost has a big role to play in contributing to the well-being of the weaker sections of the society. Proper access to finance to the rural people is a key requisite to employment, economic growth and poverty alleviation which are primary tools of economic development.

Employment Scenario of U.P.

1. **Sectoral Imbalance in U.P.**

During the process of economic transformation the workforce structure in Uttar Pradesh has also undergone some changes. In 1971, 87.1% of total workers were engaged as agricultural workers and 12.9% were engaged as non-agricultural workers. While the primary sector predominantly consisted of cultivators. In1991 the share of agricultural workforce had declined to 84.5% while that of non-agricultural employment had gone up to 15.5% respectively. Thus, in terms of employment, there has been phenomenal expansion of non-farm activities and somewhat sluggish expansion in secondary sector activities.

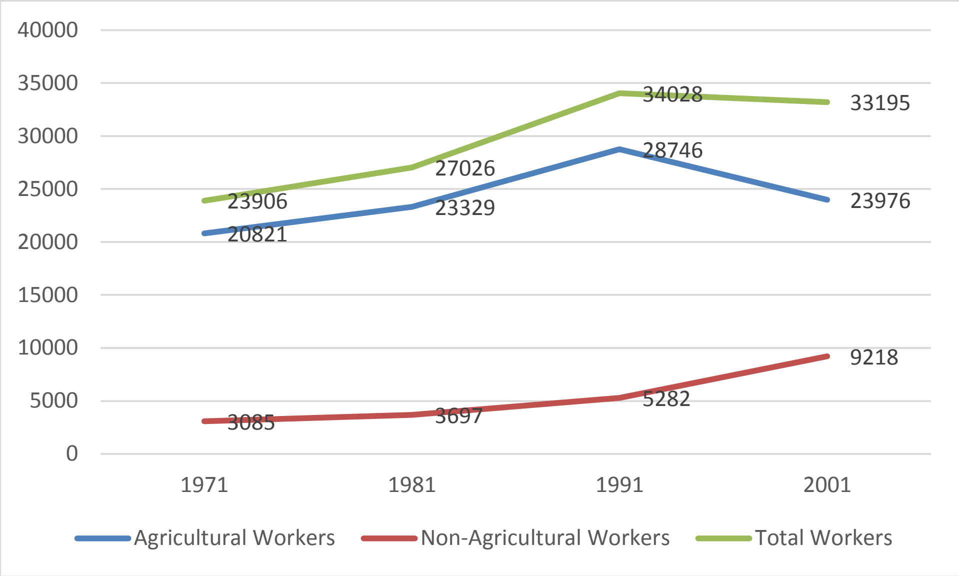
Table 1 Sector-wise Growth of Rural Main Workers in U.P., 1971-2001

Year	**Agricultural Workers**	**Non-Agricultural Workers**	**Total Workers**
1971	20821 (87.1)	3085 (12.9)	23906 (100.0)
1981	23329 (86.3)	3697 (13.7)	27026 (100.0)
1991	28746 (84.5)	5282 (15.5)	34028 (100.0)
2001	23976 (72.2)	9218 (27.7)	33195 (100.0)
Per cent Increase			
1971-81	12.0	19.8	13.1
1981-91	23.2	42.9	25.9
1991-01	-16.59	74.52	-2.45

Source: Singh, 2005.

Note: 1. Figures in parentheses show percent to total workers

2. For making data comparative data of Uttaranchal has been added in 2001 data.



Rural work force in U.P. is much less diversified and the process of diversification towards non-agricultural employment has been much slower as compared to several other states of the country (Chadha, 1997 as quoted in Singh, 2005). The share of non-agricultural workers in total rural workers has increased only moderately in the last two decades - from 12.9% in 1971 to 15.5% in 1991 and further to 27.7% in 2001 according to Census data (Table 1). In Uttar Pradesh non-agricultural rural workforce increased by 19.8% during 1971-81 and by 42.9% during 1981-91 and still higher by 74.52% in 1991-01 decade. It could be seen that agricultural sector registered a decline in rural workforce in recent decade i.e. 1991-01 (Table 1).

Table 2 Growth of Workforce (Main Workers) in U.P. by Sectors, 1991-2001

Industrial Category	**1991**			**2001**			**CAGR in 2001 over 1991**		
	Person	**Male**	**Female**	**Total**	**Male**	**Female**	**Total**	**Male**	**Female**
Cultivators	20686766	19014250	1672516	18479865	16326802	2153063	-1.25	-1.68	2.85
Agricultural Labour	7608939	5900650	1708289	5956547	4816377	1140170	-2.68	-2.23	-4.39
Plantation, Forestry, etc.	240778	220230	20548	628955	384053	244902	11.26	6.37	31.70
Mining and Quarrying	29956	27158	2798	64244	58297	5947	8.85	8.86	8.74
Primary Sector	**28566439**	**25162288**	**3404151**	**25129611**	**21585529**	**3544082**	-1.41	-1.69	0.45
Manufacturing& Repairs									
(a) House-holdIndustry	972886	806938	165948	2056944	1590438	466506	8.67	7.83	12.17
Non-House hold Industry	2083845	1970446	113399	2687027	2510655	176372	2.86	2.73	5.03
Construction	434961	421843	13118	1034956	1000790	34166	10.11	10.07	11.22
Secondary Sector	**3491692**	**3199227**	**292465**	**5778927**	**5101883**	**677044**	5.76	5.32	9.78
Trade & Commerce	2396899	2330083	66816	3117538	2987429	130109	2.96	2.80	7.69
Transport, Storage & Communication	714998	707950	7048	1053977	1034371	19606	4.41	4.30	12.04
Other Services	3711015	3387704	323311	15517261	13453080	2064181	17.23	16.56	22.87
Tertiary Sector	**6822912**	**6425737**	**397175**	**19688776**	**17474880**	**2213896**	12.50	11.76	21.03
TOTAL MAIN WORKERS	38881049	34787248	4093801	39296584	34326737	4969847	0.12	-0.15	2.18

Source: Census of India Reports.

Note: For making data comparative data of Uttaranchal has been removed from 1991 data.

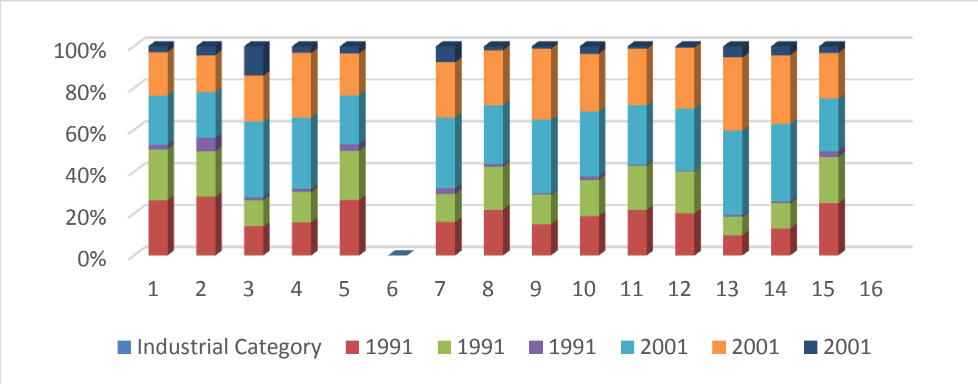


Table 2 shows the fact that the structure of work force has undergone noticeable change. This shift is away from agricultural sector to non-agricultural sector mainly in the tertiary activities. This is true for total as well as rural workers both for males and females. Rate of decline in the proportion of agricultural workers was much sharper in the period of nineties as compared to the eighties, as agriculture is no longer in a position to absorb more workers. It needs to be noted that among the agricultural workers the proportion of agricultural labourers has sharply declined as compared to cultivators. Thus, it looks that female cultivators has registered an increase of 2.85% while female as agricultural labourers has registered a drastic decline of -4.39%. It is interesting to notice that male in agriculture has shifted to non-agricultural activities i.e. all other sectors have seen an increase in their participation away from agriculture.

The NSS data shows greater diversification of the economy as compared to the Census data (Table 3). Thus, according to 61st Round of NSS 61.66% of total workers were absorbed in primary sector, 18.2% in secondary sector and remaining 20.1% in tertiary sector. Only 12.43% workers were employed in manufacturing activities. The rural economy continues to be predominantly agrarian in nature. Female workers are concentrated in the agricultural activities. 80.5% of total women workers and 86.7% of rural women workers were found engaged in agriculture.

It is seen that what so ever numbers that have declined as agricultural workers are gained by non-agricultural activities. Around 8% points in the proportion of workers employed in agriculture has taken place during the period 1993-2005 (Table 3). On the other hand, the proportion of workers in manufacturing and construction has gone up by around 3.0 and 2.4% points respectively. Among the services trade, hotels and transport sectors have gained, while other services show a decline in their share.

Table 3 Growth of Workforce in Uttar Pradesh (US+SS category), 1993-94 to 2004-05

Industry Division	Percent of Workers Employed			Change in % Points	
	1993-94	1999-00	2004-05	1990-00 over 1993-94	2004-05 over 1999-00
0.Agriculture	69.07	63.7	61.48	-5.36	-2.22
1.Mining and Quarrying	0.19	0.18	0.18	-0.01	0
Agricultural Workers	**69.26**	**63.88**	**61.66**	**-5.38**	**-2.22**
2-3. Manufacturing	9.34	11.07	12.43	1.73	1.36
4. Electricity	0.19	0.18	0.14	-0.01	-0.04
5. Construction	2.33	3.81	5.65	1.48	1.84
6. Whole sale and retail trades & hotels	7.2	9.8	9.89	2.6	0.09
7.Transport storage & communication	2.53	3.09	3.34	0.56	0.25
8-9. Other Services	9.14	8.17	6.89	-0.98	-1.28
Non-Agricultural Workers	**30.73**	**36.12**	**38.34**	**5.39**	**2.22**
Total	100	100	100		

Source: NSS Reports

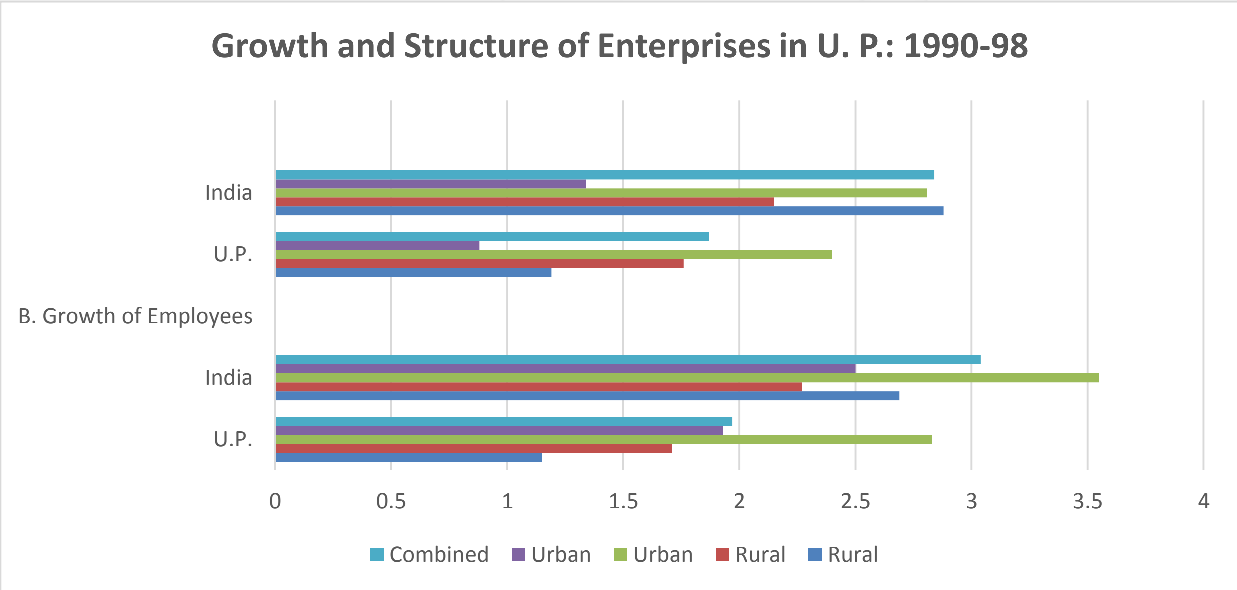
Diversification is also due to growth of non-agricultural enterprises in any location. During the period 1990 and 1998, the number of enterprises in U.P. increased by 15.6% (Table 4). The increase was slightly higher at 16.5% in urban areas against 14.6% increase in rural areas. Employment, however, increased by only 8.3% during the same period. The growth of employment in the institutional enterprises (2.5%) was much lower as compared to that in own account enterprises (16.4%), indicating a rapid growth of the informal sector in the state. Moreover, the growth rate of enterprises as well as employment in U.P. was lower during the period 1990-98 as compared to the period 1980-90

Table 4 Growth and Structure of Enterprises in U. P.: 1990-98

(Percent Per annum)

Region	Rural		Urban		Combined	
	1980-90	1990-98	1980-90	1990-98	1980-90	1990-98
A. Growth of Enterprises						
U.P.	1.15	1.71	2.83	1.93	1.97	1.83
India	2.69	2.27	3.55	2.50	3.04	2.36
B. Growth of Employees						
U.P.	1.19	1.76	2.40	0.88	1.87	1.27
India	2.88	2.15	2.81	1.34	2.84	1.71

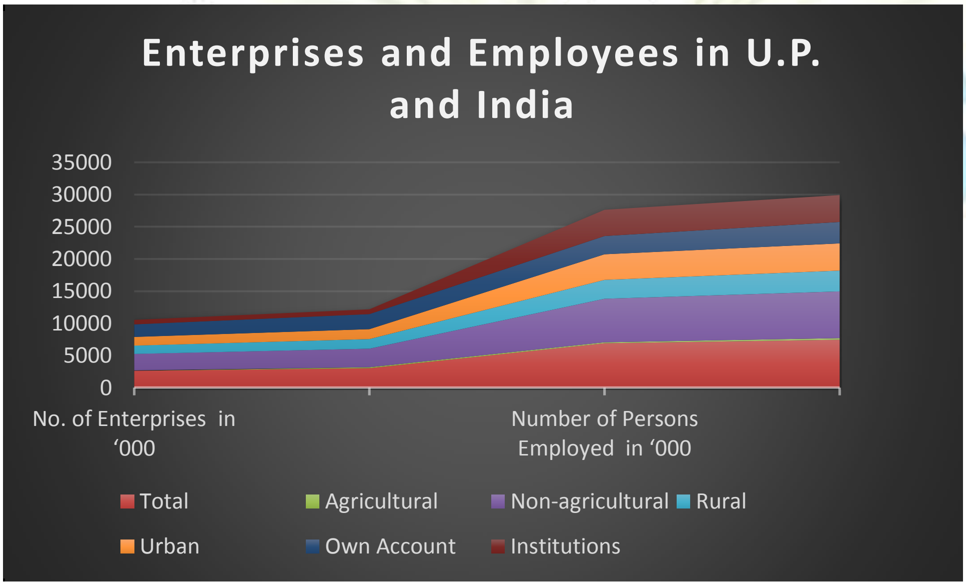
Source: ***Economic Survey, 1998,*** Economic and Statistics Division, State Planning Institute, U.P. Government



Type of Enterprises	No. of Enterprises in '000			Number of Persons Employed in '000		
	1990	1998	Increase 1990-98 (%)	1990	1998	Increase 1990-98 (%)
Total	2633 (100.00)	3043 (100.00)	15.6	6909 (100.00)	7480 (100.00)	8.3
Agricultural	87 (3.31)	133 (4.37)	52.6	168 (2.43)	237 (3.17)	41.3
Non-agricultural	**2546 (96.69)**	**2910 (95.63)**	**14.3**	**6741 (97.57)**	**7243 (96.83)**	**7.4**
Rural	1291 (49.03)	1479 (48.60)	14.6	2949 (42.68)	3232 (43.20)	9.6
Urban	1342 (50.97)	1564 (51.40)	16.5	3960 (57.32)	4248 (56.80)	7.3
Own Account	1957 (74.33)	2299 (75.55)	17.5	2869 (41.53)	3339 (44.63)	16.4
Institutions (Establishments)	676 (25.68)	744 (24.45)	10.0	4040 (58.47)	4141 (55.37)	2.5

Table 5: Growth Rate of Enterprises and Employees in U.P. and India

Source: CSO, *Economic Census 1998*, *All India Report*, Government of India



Regional Imbalances in U.P

There are not only differences in sectoral distribution of workers in Uttar Pradesh, but Regional Imbalances also Exist in Uttar Pradesh. It may be noticed that Central and Bundelkhand regions are agrarian with 54.9 and 54.3% of workers as cultivators.

Furthermore, proportions of agricultural labourers in these two regions were 27.6 and 31.7% respectively. In all, the farm sector absorbed about 82.6 and 86.09% of workforce in these two regions. It could be appropriate to reiterate that the rural economies of these two regions are primarily reliant on agriculture. But in Western region relatively lower proportion of agricultural workers are agricultural labourers. While comparing Western and eastern regions we find that the Western is more developed and the Eastern region is backward of these two. The rural non-farm employment was found quiet extensive in Western region (27.78%) followed by Eastern with 21.51% in RNFE. It clearly highlights the fact that agricultural development is an important driving force behind the growth of RNFE.

Table 6: Regional Diversification of Workforce in Rural Uttar Pradesh-2001

2001 Rural	**Western Region**	**Central Region**	**Eastern Region**	**Bundelkhand Region**	**UP**
Rural Persons					
Total workers (Main + Marginal)					
Cultivators	49.07	54.95	44.66	54.31	48.42
Agricultural Labourers	23.15	27.66	33.83	31.78	29.29
Agricultural Workers	72.22	82.61	78.49	86.09	77.71
Household Indutry Workers	4.20	3.54	5.41	2.70	4.54
Other Workers	23.58	13.85	16.10	11.20	17.75
Non-Agricultural workers	27.78	17.39	21.51	13.91	22.29
Rural Male					
Total workers (Main + Marginal**)**					
Cultivators	52.54	59.71	48.56	58.98	52.56
Agricultural Labourers	22.58	22.76	25.93	23.79	24.06
Agricultural Workers	75.12	82.47	74.49	82.77	76.63
Household Indutry Workers	2.57	2.71	5.24	2.63	3.71
Other Workers	22.32	14.82	20.27	14.60	19.67
Non-Agricultural workers	24.88	17.53	25.51	17.23	23.37
Rural Female					
Total workers (Main + Marginal)					
Cultivators	33.51	37.69	36.51	46.04	36.82
Agricultural Labourers	25.69	45.43	50.33	45.92	43.94
Agricultural Workers	59.20	83.12	86.84	91.96	80.76
Household Indutry Workers	11.54	6.55	5.76	2.84	6.88
Other Workers	29.26	10.33	7.40	5.19	12.36
Non-Agricultural	40.80	16.88	13.16	8.04	19.24

workers						

Source: Calculated from Census 2001.

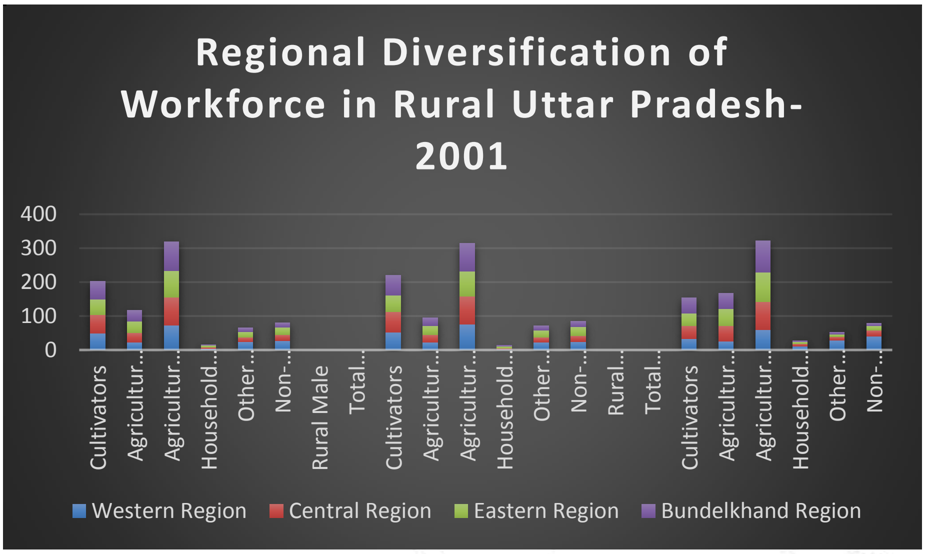


Table 7 Regionwise Distribution of Enterprises and Employees in U.P

Region	Enterprises		PersonsEmployed	
	Nos. ('000)	Percent	Nos. ('000)	Percent
Western	1124	38.63	2967	41.17
Central	524	18.00	1321	18.34
Eastern	914	31.42	2128	29.54
Bundelkhand	143	4.91	297	4.12
Uttaranchal	205	7.04	530	7.36
Total	2910	100.00	7205	100.00

Source: ***Economic Census, 1998,*** Economic and Statistics Division, State Planning Institute, U.P. Government.

Table 7 gives the region-wise distribution of enterprises. The largest number of enterprises is concentrated in the more developed Western region of the state (38.6%) followed by Eastern region (31.42%). Central region accounts for 18% of total enterprises, while 4.9% enterprises are located in Bundelkhand. Remaining 7.04 percent enterprises were located in Uttaranchal, which is now a separate state after the bifurcation of U.P. in the year 2000.

Financial Exclusion

Financial exclusion is lack of access by certain consumers to appropriate, low cost fair and safe financial products and services from mainstream providers. Financial inclusion becomes more important in the community when it applies to lower income consumer. There is large number of reasons for financial exclusion. In remote, hilly and sparsely populated areas with poor infrastructure, physical access itself acts as a deterrent. From the demand side, lack of awareness about products, low income/assets, social exclusion, illiteracy acts as a constraint. Fromsupply side, distance from branch, branch timings, cumbersome documentation and procedures, unsuitable products, staff attitudes are common reasons for financial exclusion. On the other hand, the ease of availability of informal credit sources makes these popular, even if costlier. The requirement of independent documentary proof of identity and address can be very important barrier in having a bank account, especially for migrants and slum dwellers.

Serious consequences of financial exclusion --

1. Compromised standard of living resulting from lack of access to short credit
2. Higher costs associated with using non-mainstream credit providers.
3. Increased exposure to unethical and unregulated providers.
4. Vulnerability to uninsured risk.

Why Financial Inclusion for India?

Indian Economy growing at the rate of (8.5 % to 9 %) pa and industry and Services contributing most, agriculture growing at only 2%, limited access to affordable financial services (credit/Insurance/Remittance) behind it. To provide access to safe formal payment system savings / deposit insurance to all provides formal Identity, aids social and political stability. Reduces impact of anti- poverty initiatives, people remain on benefits, need for state intervention at crisis point of view, increased demand for third sector services ,increased re-offending rates and pattern for future generation. people with long term illness, homeless people, housing association tenants, divorced people, people with mental health problem, people living in rurally isolated areas, member of the BME community, ex-offenders and their families, people living in disadvantaged areas young people not in employment, education or training, people on low income, disabled people, careers, unemployed people, care leavers, women, older people, migrants will be most affected by financial inclusion.

Role of financial institutions in India

The banking sector of India has 88 SCBs, 27 public sector banks 31 private banks, 38 foreign banks, 53,000 branches, 100000 co-operatives and 17000 ATMs, but still it doesn't lend to large sections of the Indian people. In India, barely 27% of cultivator households get some form of institutional credit, 22% get credit from moneylenders and the remaining 51% don't get any credit at all. The phrase financial inclusion means that banking sector must reach out to more people who require credit, who deserve credit and who cannot access credit. The Indian banking industry has got varying degrees of success in its Endeavour to provide banking services to the common mass. Even after a few decades of bank nationalization a large chunk of poor population continues to remain outside the fold of formal banking system. According to the 59 th round of the NSS survey, out of total number of cultivator households in the Indian economy only 48% availed credit from the formal sector. Share of informal sector loans in agriculture went up from 17.5% to 29.6% during 1992 and 2002.Although no official statistics are available, it can be safely assume that the position of credit facilities to the non-agricultural rural poor is worse due to lack of security and awareness. It has been revealed in a recent NCEAR - World Bank Rural Financial Access Survey that 70% of the marginal /landless farmers are not having bank account and 87% do not have access to formal credit. Thus the majority of the rural and urban poor do not have basic bank accounts, credit facilities and other financial services. As an obvious consequence, they are compelled to rely on informal credit sources at an exorbitant rate of interest leading to their falling into debt- trap. Financial inclusion holds top priority for policy makers today, because unless we are able to meet the credit needs of our people, we can never hope to grow in a sustainable way. In order to reach the maximum number of people, in the most efficient manner, banks need to have robust risk management practices, advanced technology, skill manpower and very sound marketing practices. All this would require huge investment further, competition from foreign banks is likely to intensify in the coming year, and the domestic banks need to prepare themselves to face the challenge. With innovations in products and services coming up every day, banks also need to acquire new skills in sales, marketing and credit operations.

Role of financial institutions in Uttar Pradesh

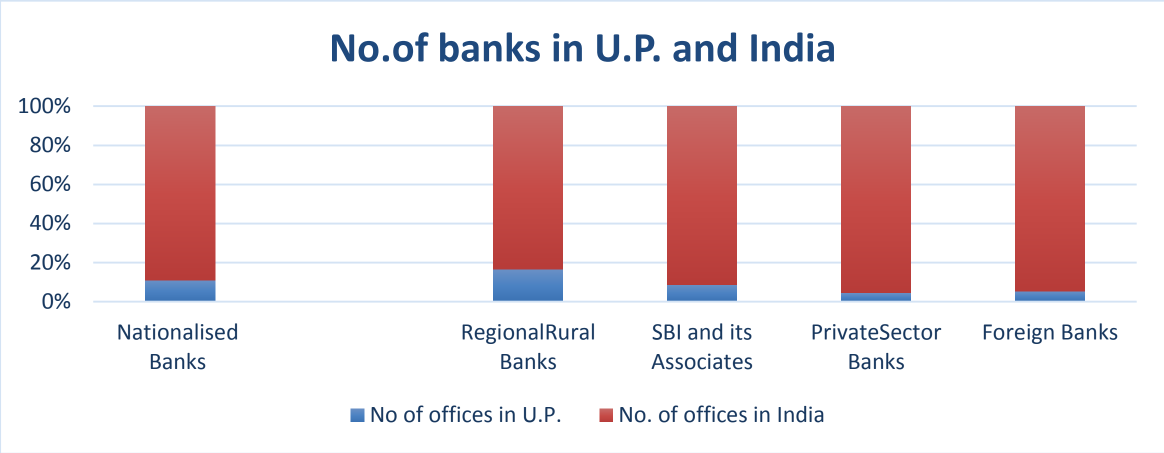
After 1991, banks have become the spine for the development of the economy on all parameters in any state. Now, health of the economy is closely related to the soundness of its banking system. The banking sector of Uttar Pradesh is predominated by nationalised banks with more than 5000 branches of which SBI and its associates have 1712 branches, followed by regional rural banks with 3092 branches, private sector banks with 526 branches and foreign banks with 17 branches.

Table 8.Total No of Banks in U.P. and India in 2010

Banks in U.P.	No of offices in U.P.	No. of offices in India	Offices in U.P. as % of total
Nationalised Banks	5420	43908	12.3
RegionalRural Banks	3092	15658	19.74
SBI and its Associates	1712	17899	9.56
PrivateSector Banks	526	11347	4.63
Foreign Banks	17	298	5.70

Source: PHD Research Bureau, Compiled from RBI, September 2010

Data pertains to March 2011

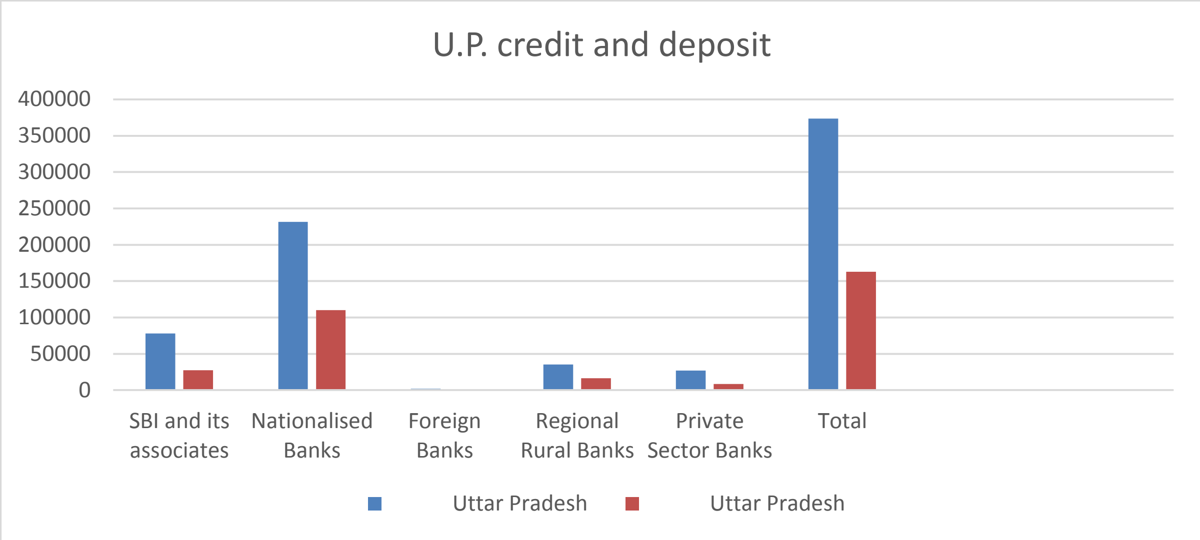


The state's credit deposit ratio stands at 43.6% (March 2011), which is lower than the national level of 75.1% during the same period, since high credit deposit ratio shows the effective functioning of the banking sector. The credit deposit ratio of all scheduled commercial bank stands at 46.4% in rural areas, 40.1% in semi-urban areas, 43.5% in urban areas and 45.5% in metropolitan.

Table 9 Credit Deposit Ratio of U.P. and India In 2010

	Uttar Pradesh			India		
Components	**Deposit**	**Credit**	**Credit Deposit Ratio(%)**	**Deposit**	**Credit**	**Credit Deposit Ratio(%)**
SBI and its associates	77962	27247	34.9	1171917	902979	77.1
Nationalised Banks	231348	110045	47.6	2875049	2153335	74.9
Foreign Banks	1929	593	30.7	236405	197959	197959 83.7
Regional Rural Banks	35372	16446	46.4	163928	98244	59.9
Private Sector Banks	27023	8558	31.6	979,212	724,351	74.0
Total	373634	162890	43.6	5426510	4076868	75.1

Source: PHD Research Bureau, compiled from RBI
Note: Data pertains to March 2011


U.P. credit and deposit
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SBI and its associates
Nationalised Banks
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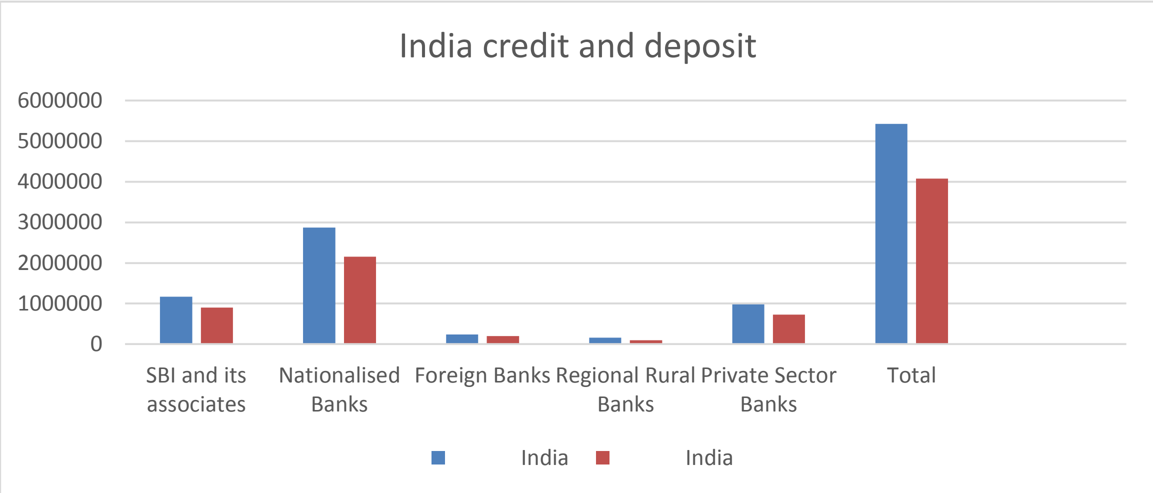
India credit and deposit
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Nationalised Banks
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Conclusion

Uttar Pradesh is state of villages. A large proportion of total population lives in rural areas. Development of rural areas leads to development of whole state. So socio-economic development of the rural poor is the pressing need of the day. A problem cannot be viewed in isolation. Uttar Pradesh, the land of opportunities is widely acknowledged for its multi-hued culture, religion, natural resources and variety of geographical land. The scenario of industrial investments in the state is quite encouraging. With availability of large skilled and semi-skilled workforce .The present study provides ample evidence to the fact that financial inclusion, laid the seeds for the rural development because, all-round economic development depends upon rural development. Banking sector has a valuable contribution to the development planning which provides alternative way for development. In U.P. number of Banks are lesser than India. There are opportunities for development is available in U.P., but credit facilities are unavailable. Regional and sectoral disparity is main problem of Uttar Pradesh. For inclusive growth in Uttar Pradesh expansion of financial institutions will play an important role. History shows that a strong financial system is a necessary ingredient for a growing and prosperous economy. Companies raising capital to finance capital expenditures as well as investors saving to accumulate funds for future use require well-functioning financial institutions.

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