

# **Economic Evaluation of Financing and Promotional Bodies for Industrial Development in Uttar Pradesh**

**(SUMMARY)  
DISSERTATION**

Submitted To  
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## SUMMARY

Uttar Pradesh, often described as the heartland of India, it is spread across 2, 40, 928 square kilometers and having 18 divisions, 75 districts and 821 community development blocks in the country. It is the fourth largest state in India in terms of land area covering 7.3 percent of the country's geographical area. The state has a population of 19.98 cores (as per 2011 census) which is around 16.5% of India's population and is the highest amongst all Indian states with a GSDP of Rs.11, 45, 234 crores in 2015-16. However, Uttar Pradesh is primarily an agrarian economy where still more than 60 percent of its total population is depending on agriculture for livelihood. The State of Uttar Pradesh exhibits all the characteristics of underdeveloped economy. The state is suffering from low per-capita income, unemployment, problems of poverty, poor quality of life. Nonetheless, the state is the largest food grain producer in India but the agriculture itself cannot be adequate for bringing the rapid economic growth and development and to free the state from economic backwardness (Sami.,L, and Prabhakar., R., 2015). The agriculture sector of Uttar Pradesh is facing problems like the agro climate conditions, inadequate monsoon, inadequate of modern agricultural inputs and uneconomical size of land holdings in the state .Agricultural sector is not able to promote adequate employment to the people in Uttar Pradesh. Hence, there is an important need to create a strong and a vibrant industrialization in order to remove the economic backwardness of the state. Therefore, the state of Uttar Pradesh has to follow the pathway of classical economist's theory for under-development economies remedies. The classical economists suggests that the developmental priorities should be given more on the development of modern industries this is because the industrial sector relatively possesses a higher marginal propensity to save and investment which inversely raise the income built self-sustaining economy and increases the employment opportunities in the economy and will accelerate the pace of growth and development in the state.

The structure of industrial economy of Uttar Pradesh is traditionally been dominated by small enterprises and traditional industries like agro-based and textile industries. The inadequate number of large scale industries has been considered as one of the factors which is responsible for lagging the industrial progress of the state (State Development Report 2014.). On the other side the problem of finance and other problems like credit, marketing, management, cost of production, raw material, lack of skilled personnel, inadequate infrastructure, increasing competition are the major challenges for industrial of Uttar Pradesh . Therefore, the assistance as well as guidance from government and other organizations is

the major hindrance for making the state of Uttar Pradesh more industrial state in the country. Nevertheless, the Government of Uttar Pradesh has put various efforts to improve the industrial development but still the industrial development has not reached up to mark. Nevertheless, the industrial is indispensable for underdeveloped state like Uttar Pradesh where the per capita income is very low and the incidence of the poverty is very high among the people. As the economy of Uttar Pradesh is primarily an agrarian economy and the agriculture is only subsistence source of livelihood among the people of Uttar Pradesh. Therefore development of the industrial sector can play a pivotal role in transforming the agrarian economy of Uttar Pradesh to Modern industrial sector and will raise the socio-economic conditions of the state. Apart from this the development of the industrial sector will lead to the economic development of the state. The industrial development in the state will also help to achieve the most important Macro-economic goals of the state such as employment as the un-employment problem is a gigantic issue in the Uttar Pradesh economy. The Uttar Pradesh is one of the most populated states of the India and is suffering from the problem of large unemployment in the state. Therefore, development of the industrial sector can help to solve the problem of unemployment in the state. Moreover, the economy of Uttar Pradesh is facing the problem of un-equitable distribution of income. Therefore, with the development of the industrial sector in the state will bring the equitable distribution of income, as the industrial sector has a large potential of utilizing the local resources and providing employment to large chunk of people which will directly reduce the regional disparities in the state.

The state of Uttar Pradesh is bestowed with many natural resources which are yet to be exploited. The industrial development is indispensable for Uttar Pradesh. The industrial sectors are functioning almost in all districts of Uttar Pradesh but it has not increased with the accelerated pace and remained sluggish. There are many disparities in terms of industrial development among the district wise in Uttar Pradesh (Papola, T. S.1985). Some of the districts have achieved significant growth in-terms of industrial development where as other districts are still lagging. Moreover, development of heavy and medium industries in the state has maintained a constant trend in the state, by the end of the 2012-13 there were 7454 large scale industries with an employment of 1662491 lakhs with an investment of 276921.38 crores rupees in the state. While as, in case of small scale industries it were 45164 units with an investment of 3021.3 crores rupees and were providing employment to 481695 lakhs in the state.

Therefore the study examines the performance of two financial and promotional bodies for industrial development in Uttar Pradesh i.e. State Financial Corporation and State Industrial Development Corporation of Uttar Pradesh.

### **Major Objectives of the Study**

This study has to evaluate the two major financing and promotional bodies for industrial development in the state. The major objectives of the study are following.

- ❖ To analyze the industrial development of Uttar Pradesh in terms of production, employment, income and capital
- ❖ To evaluate the financing and promotional bodies for industrial development in terms of loan disbursement, sanctions, employment, production and exports.

### **Hypothesis**

- The Financing and promotional bodies have positive impact on industrial development in Uttar Pradesh.

### **Methodology**

The study is confined to state of Uttar Pradesh. The period of study is from 2000-2015. This period is a boned for industrial development in the state. The results of new economic policies were visible in the state development. The study in based on secondary data Moreover, the data has been collected from the various annual reports of these financing and promotional bodies of industrial development of Uttar Pradesh. Some appropriate statistical tools have been used for data analyzing.

The Outset chapter of the study is **Introduction** which gives insights about the importance of industrial sector at both national and international level. The Introduction chapter also covers the review of literature, objectives, hypothesis and the Methodology and chapter plan of the study. After discussing the historical background of industrial sector at national and international level, the study highlights the need and importance of industrial development in Uttar Pradesh and its contribution in-terms of GSDP and employment generation in the state. For knowing more information about Industrial development of Uttar Pradesh and its contribution to the state economy and to assessing the research gap various literature has been reviewed which contains books, published papers and other government published reports. Through the review of literature it has been found that state of Uttar Pradesh is bestowed with

many natural resources which are yet to be exploited therefore, the development of industrial sector is indispensable for Uttar Pradesh. Moreover, from the literature review it has been found that the industrial sectors are functioning in almost all the districts of Uttar Pradesh but the development of industrial sector in Uttar Pradesh has not increased with impressive pace and has remained sluggish. There are so many bottlenecks which are a root cause hindrance for the industrial development in the state, which includes the problem of finance, capital flow, market and infrastructure bottlenecks etc. Further, on the basis of review of literature and research gap, the objectives and hypothesis of the study has been framed. To fulfill the objectives of the study the research methodology part has been designed and on the basis of research objectives the plan of the study has also been scheduled for accomplishing the study.

The Chapter Second of the present study is **Theoretical and Conceptual Framework** which gives us the theoretical understanding of the industrialization and its impact on the economic growth and development of both developing and developed countries of the world forwarded by many classical, neo-classical and Modern economists of different schools. This Theoretical framework gives the in-depth knowledge about the importance of industrialization for achieving the self-reliance and sustainable economic growth particularly in the developing countries of the world. The chapter also explains how to economic transformation i.e. the transformation from agriculture sector to modern sector through creation of forward and backward linkages in which industrial sector has emerged as an important segment to overcome the increasing challenges of un-employment by creating rapid employment opportunities for increasing labour force and sustaining the livelihood of the unemployed persons of the country.

The Chapter Third of the study is about **Uttar Pradesh State Financial Corporation**. The financial sector is a critical sector for every economy to bring economic growth and development in the economy. However, after independence the financial sector has been emerged in India in almost all the states and these financial institutions can be broadly classified into two categories viz., all India institutions and State level institutions. However, in context of Uttar Pradesh the Uttar Pradesh Financial Corporation was established on 1st November 1954 under the state financial corporation Act 1951. The Uttar Pradesh financial corporation took a principle step for the industrial development at the state of Uttar Pradesh by providing financial assistance to upcoming small and medium scale industries in the state of Uttar Pradesh and also for modernization, diversification and expansion of existing Industrial units. UPSFC plays a vital role in the order to make the financing activities

efficient & thereby develops the economy of the state. At present the UPFC has twenty regional offices and two branch offices that are spread throughout the state of Uttar Pradesh. The objective of Regional Offices is to ensure greater efficiency and providing quicker, faster, and quality services with regard to sanction and disbursement of loans.

Therefore, the present chapter analyses the performance of Uttar Pradesh State Financial Corporation in terms of providing financial support to the industrial sector of the state. Therefore, the results of the study are showing that the growth rate of the sanctioned amount of State Financial Corporation of Uttar Pradesh has declined from 3.06 percent in 2000 to -1.38 percent in 2008. While as, in case of Disbursement amount it has declined from 2.07 percent in 2000 to 0.33 percent in 2008. Similarly, in case of investment and Employment in the industrial sector are showing a drastic decline i.e. the growth of an investment has declined from 31.20 percent in 2000 to -99.58 percent in 2008 and in case of employment its growth has been declined from 62.72 percent to -96.20 percent in 2008. The results also shows that in-terms of industry wise term loan disbursement , the highest term loan disbursed by the state industrial financial corporation was to Food Manufacturing industries which has increased from 945.68 Lakhs to 1656.86 lakhs in 2001-02 then the amount disbursed has declined to 163.99 lakh in 2006-07, followed by Chemicals and Chemicals Product. In Chemicals and Chemicals Product the amount disbursement of terms loans has been increased 2308.08 lakhs in 1999-00 to 486.22 lakhs in 2002-03 then it has declined to 35.98 lakhs in 2006-07, then followed by Textiles. In case of textiles the amount disbursed of term loans has been increased from 252.2 lakhs in 1999-00 to 604.24 lakhs in 2001-02 then it has declined to 223.56 lakhs in 2006-07.

Chapter fourth of the Study is **Uttar Pradesh State Industrial Development Corporation**. Undoubtedly, Industrial Promotion agencies are the pillars of the Industrial development of any nation throughout the world. These agencies may be described as the economic builders of the nation in the sense that the future of a nation vests in the development of Industrialization and same is true case with Uttar Pradesh Industrial development Corporation. The Chapter 4 Analyses the performance of Uttar Pradesh Industrial development Corporation as UPSIDC is the main driver of Industrialization in the State and its main aim is to develop and to provide the industrial infrastructure in the state by acquisition of land for Industrial Development Land, Activities related to land allotment in Industrial Areas, Development of Special Economic Zones (SEZ), and Industrial Infrastructure updation plan under MSE-CDP, Integrated Infrastructure Development Centre

and Industrial Areas. Apart from this, the UPSIDC has developed a series of Industrial Area, Integrated Township and Technology Park. It has set up a number of projects at various prominent locations for promoting Industries viz; Export Promotion Industrial Park, Agro/Food Processing, Bio-technology, Apparel, Leather and Leather products Textile, Plastics, etc. However, the results of the study is showing that Uttar Pradesh Industrial development Corporation has achieved many milestones in the state, as it has reached almost in all the districts of the state but it has not provide the equal distribution of industrialization in the state. The some of the districts have received much attention in-terms of industrial development and some are still lagging behind. The results also shows that the Total Income of the UPSIDC has increased from 3138.67 Lakh rupees in 2000 to 12658.19 lakhs in 2011-12 and the major source of the income for the Corporation is Interest. While in case of Total expenditures it has been increased from 2844.53 lakh Rupees in 1999-00 to 5318.64 lakh rupees in 2011-12 in the state.

Uttar Pradesh is primarily an agrarian economy where still more than 60 percent of its total population is depending on agriculture for livelihood. The State of Uttar Pradesh exhibits all the characteristics of underdeveloped economy. The state is suffering from low per-capita income, unemployment, problems of poverty, poor quality of life. Nonetheless, the state is the largest food grain producer in India but the agriculture itself cannot be adequate for bringing the rapid economic growth and development and to free the state from economic backwardness. The agriculture sector of Uttar Pradesh is facing problems like the agro climate conditions, inadequate monsoon, inadequate of modern agricultural inputs and uneconomical size of land holdings in the state .Agricultural sector is not able to promote adequate employment to the people in Uttar Pradesh. Therefore, there is an important need to create a strong and rapid industrialization in order to remove the economic backwardness of the state. Therefore, the state of Uttar Pradesh has to follow the pathway of classical economists' theory for under-development economies. The classical economists suggests that the developmental priorities should be given more on the development of modern industries this is because the industrial sector relatively possesses a higher marginal propensity to save and investment which inversely raise the income built self-sustaining economy and increases the employment opportunities in the economy and will accelerate the pace of growth and development in the state. However, the industrial development is not possible at individual level; it requires a set of promotional bodies for providing the financial and non-financial support. Therefore the industrialization of a nation can be boosted up only with the promotion of these various Industrial Promotion bodies or Agencies. In general sense, the Industrial

Promotion Agencies extended the support of various sorts of assistance to the industrial sector for the prospective of entrepreneurs in the nation. The activities and services of Industrial Promotion Agencies are pervasive as their services are like life-blood for an enterprise in a nation. However, among all these Industrial Promotion Agencies there are some agencies which are financial supporting agencies and other are non-financial agencies among the non-financial it may take two main forms i.e. infrastructural assistance and non-infrastructural assistance. However, as far as the non-financial agencies are concerned these agencies play a prominent role in the development and up-gradation of Industrialization of a nation. These non-financial assistance promotional bodies are primarily focusing on infrastructure development of the industrial sector of a nation and if the basic infrastructure facilities like power, transportation and communication are lacking then new industry can take place or no new enterprises can be attracted to such place unless otherwise such facilities are provided and supplied. Therefore the present has analyzed the role and performance of two major industrial promotion bodies of Uttar Pradesh i.e. State Financial Corporation and State Industrial Corporation. The major objectives of the study are to analyze the industrial development of Uttar Pradesh in terms of production, employment, income and capital and to evaluate the role of financing and promotional bodies for providing the industrial development in terms of loan disbursement, sanctions, employment, production and exports and the major hypothesis of the study was to test that the financing and Promotional bodies have positive impact on industrial development in Uttar Pradesh, based on the above objectives the following methodology has been adopted to accomplish the study. The study is based on secondary data and the data have been taken from 2000 to 2015 for Uttar Pradesh Financial Corporation and for State Industrial Development Corporation the data have been taken from 2000 to 2012. Moreover, the data has been collected from the annual published reports of these financing and promotional bodies of industrial development of Uttar Pradesh. Whereas, appropriate statistical tools have been used for data analyzing.

In order, to go in the depth of the study the various literature has been reviewed in order to gain more insights of the topic, and after reviewing the literature review it has been found that the industrial sectors are functioning in almost all the districts of Uttar Pradesh but the development of industrial sector in Uttar Pradesh has not increased with impressive pace and has remained sluggish. There are so many bottlenecks which are a root cause hindrance for the industrial development in the state, which includes the problem of finance, capital flow, market and infrastructure bottlenecks etc. Further, on the basis of review of literature and

research gap, the objectives and hypothesis of the study has been framed. To fulfill the objectives of the study the research methodology part has been designed and on the basis of research objectives the plan of the study has also been scheduled for accomplishing the study.

Nevertheless, the Uttar Pradesh State Financial Corporation is providing financial support to the industrial sector of the state. But from the study it has been concluded that the performance of the Uttar Pradesh State financial corporation is not progressive in the state as the corporation has terminated the sanction of loans to the industrial sector of the state from 2008 onwards. The results are also showing that the growth rate of the sanctioned amount of State Financial Corporation of Uttar Pradesh has declined from 3.06 percent in 2000 to -1.38 percent in 2008. While as, in case of Disbursement amount it has declined from 2.07 percent in 2000 to 0.33 percent in 2008. Similarly, in case of investment and employment in the industrial sector it is also showing a drastic decline i.e. the growth of an investment has declined from 31.20 percent in 2000 to -99.58 percent in 2008 and in case of employment its growth has been declined from 62.72 percent to -96.20 percent in 2008. The results also shows that in-terms of industry wise term loan disbursement, the highest term loan disbursed by the state industrial financial corporation was to Food Manufacturing industries which has increased from 945.68 Lakhs to 1656.86 lakhs in 2001-02 then the amount disbursed has declined to 163.99 lakh in 2006-07, followed by Chemicals and Chemicals Product. 2308.08 lakhs in 1999-00 to 486.22 lakhs in 2002-03 then it has declined to 35.98 lakhs in 2006-07, then followed by Textiles. In case of textiles the amount disbursed of term loans has been increased from 252.2 lakhs in 1999-00 to 604.24 lakhs in 2001-02 then it has declined to 223.56 lakhs in 2006-07.

Moreover, in case of Uttar Pradesh State Industrial Development Corporation it is the main driver of Industrialization in the State as its main aim is to develop and to provide the industrial infrastructure in the state by acquisition of land for Industrial Development Land, Activities related to land allotment in Industrial Areas, Development of Special Economic Zones (SEZ), and Industrial Infrastructure updation plan under MSE-CDP. Apart from this, the UPSIDC has developed a series of Industrial Area, Integrated Township and Technology Park. It has set up a number of projects at various prominent locations for promoting Industries viz, Export Promotion Industrial Parks, Agro/Food Processing, Bio-technology, Apparel, Leather and Leather products Textile, Plastics, etc. However, the results of the study is showing that Uttar Pradesh Industrial development Corporation has achieved many milestones in the state, as it has reached almost in all the districts of the state but it has not

provide the equal distribution of industrialization in the state. The some of the districts have received much attention in-terms of industrial development and some are still lagging behind. The results also shows that the Total Income of the UPSIDC has increased from 3138.67 Lakh rupees in 2000 to 12658.19 lakhs in 2011-12 and the major source of the income for the Corporation is Interest. While in case of Total expenditures it has been increased from 2844.53 lakh Rupees in 1999-00 to 5318.64 lakh rupees in 2011-12 in the state.

### **Recommendations**

- ❖ The state Government should come forward to check the sanction problems of the Uttar Pradesh State Financial Corporation in order to restart the sanction process of the Uttar Pradesh State Financial Corporation so that the Corporation can meet the financial requirements of the entrepreneurs again.
- ❖ In order to bring efficiency the State Government should make efforts to appoint the Special Financial Advisors (SPA) for State Financial Institutions to recuperate from financial constraints.
- ❖ The government should establish more regional branches of Uttar Pradesh State Industrial Corporation in the backward districts of the state in-order to develop industrial parks in these less Industrial districts of the state.
- ❖ In sanctioning of the credit facilities the State Financial Corporation should check the efficiency and vibrancy of the industrial units before sanctioning the amount to them so that the State Financial Corporation cannot face the problems of financial constraints and problems in recovering the loans from entrepreneurs.
- ❖ In order to bring the vibrancy in Uttar Pradesh State Financial Corporation and State Industrial Development Corporation. The State Government should approach to the Central government in order to meet the financial requirements of the both Uttar Pradesh State Financial Corporation and State Industrial Development Corporation.
- ❖ In order to develop the industrial units in the less industrial districts the loans should be given to the entrepreneurs at a lower rate of interest so that more industrial units can be developed in these less industrial districts.

The State government should identify the districts where the industrial development can possess higher returns and then to approach both Uttar Pradesh State Financial Corporation

and State Industrial Development Corporation to attract more entrepreneurs to establish new industrial units by providing loans at very low interest rates and other basic amenities