Introduction

The rural capital market has not found favour in both academic and non-academic research. As a result, the concept of 'rural capital market' has not been delineated in any meaningful way so far. The present chapter is meant to explore the conceptual framework of rural capital market with special reference to India. But to present the concept of rural capital market in its proper perspective, it was felt essential to discuss all other related concepts in detail. Hence, the discussion in this chapter covers concepts like capital, capital market in general, rural capital assets, rural credit market, rural money market and rural capital market.

Capital Formation

The term capital formation has found favour in intellectual discussions owing to its prominence as one of the four factors of production. Since Mercantilists and physiocrats, down the lane, all economists have discussed the concept of capital formation in detail. However, it is Ragnar Nurkse who gave a broad definition for the capital formation which seem appropriate in Indian rural context.
"The meaning of capital formation is that society does not apply the whole of its current productive activity to the needs and desires of immediate consumption, but directs a part of it to the making of capital goods, tools and instruments, machines and transport facilities, plant and equipment – all the various forms of real capital that can so greatly increase the efficacy of productive effort. The essence of the process then is the diversion of a part of society's currently available resources to the purpose of increasing the stock of capital goods, so as to make possible an expansion of consumable output in the future."\(^1\) This definition emphasizes only the real physical assets in the capital formation and neglects the human capital. Author fails to recognise the investment in men, more appropriately described as human capital, within the scope of capital formation.

Simon Kuznets has rightly included the expenditures on education, non-profit research, health, recreation, etc., as human capital, which "contribute to economic growth by increasing the efficiency of a complex productive system."\(^2\)

By treating human capital and physical capital as two components of capital, Schultz has given an all-inclusive dimension to capital. Pleading for a revision of the definition of capital, he writes, "Surely one of the major reasons for the widely held popular belief that economics is materialistic is the over-commitment on the part of economists to a partial concept of capital restricted to material objects."
The failure to include the acquired abilities of man that augment his economic productivity as a form of capital as produced means of production, as a product of investment, has fostered the retention of the patently wrong notion that labour is capital free and it is only the number of man-hours worked that matters. But ... labourers have become capitalists in the sense that they acquired much knowledge and many skills that have economic value. Clearly what is needed in this connection is an all-inclusive concept of capital. ³

In the present study, however, we have confined ourselves to the enquiry of rural capital market in connection with rural physical assets only. We have only made references to investments on education meant to urban white collared jobs. Since our objective is to study the rural capital market, we could not concentrate much on rural human capital formation.

An important aspect that needs to be pointed out in this context is that, the above referred three authors did not consider the possibility of capital formation through transfer of ownership of capital assets. Transfer of assets, for example; land in rural areas, are bound to add to the productive capacity of those households which acquired the assets and decline in the case of such households which disposed those assets. Which means, on a broader sense, though the capital assets of the community as a whole have not changed on an aggregate, the productive assets of some families have declined and for some
others it increased. Since we are only interested in assessing the rural capital market we knowingly included transfer of capital asset also as a component of capital formation. We also included the funds invested in the purchase of capital assets like land and cattle to arrive at the working of rural capital market.

The other significant works that did similar exercise of assessing rural capital and rural capital assets have included only development works taken up on land as capital investment and not the whole investment made in acquiring the land itself. We included the investments made on the purchase of land also as capital funds. Further, if any funds earned through the disposal of capital assets are used in acquiring the new capital assets, then we considered them also as part of investment funds in capital asset acquisition.

**Rural Capital Assets**

The rural capital market cannot be delineated unless we prepare an inventory of rural capital assets. Based on the investments made on rural capital assets, it becomes easy to delineate and understand the rural capital market.

The rural capital assets encompass a large variety of productive assets. One way of looking at them was by segregating the rural capital assets into 'agriculture based' and 'non-agriculture based'. The
other way of looking at them was public 'rural capital assets' and 'private rural capital assets'.

The list of rural capital assets differed in content based on the agency involved in conducting the study and the purpose of the study. Data relating to the asset holding in rural areas of India is available from (1) the surveys of the Reserve Bank of India4: (a) All India Rural Debt and Investment Survey, 1961-62 and (b) All India Debt and Investment Survey: Assets and Liabilities of Rural Households, 1971-72 and (ii) The NSS 37th Round (January-December, 1982) organised by Governing Council, NSSO.

The Rural Credit Follow up Survey (1958-59)5 has dealt exhaustively on capital assets to facilitate an understanding of capital expenditure, capital formation and sources and uses of funds. The amount spent on purchase of land, purchase of livestock, bunding and other land improvements, construction and repair of wells, development of other irrigation resources, laying of orchards, expenditure on agricultural implements, machinery, transport and equipment etc., and construction and repair of farm houses, grain golas and cattle-sheds are included in capital expenditure.

The Report deals with the capital formation in the agricultural sector by summing up the expenditures on reclamation of land, new construction relating to bunding and other land improvements, wells and other irrigation resources, orchards, farm houses, grain golas and
cattle-sheds, purchase (less sale) and replacement of and additions to agricultural implements, machinery and transport equipment etc., and other capital expenditure on agriculture.

However, the repair element in the above constituent was separated and removed in estimating the capital formation. But the Report admits impracticability in excluding the repair element altogether in the expenditures in the agricultural sector in respect of agricultural implements, machinery and transport equipment, reclamation of land and other capital expenditure in agriculture.

National Council of Applied Economic Research (NCAER)\(^6\) in its study on the formation of capital in agriculture has included both fixed assets and inventories in estimating the physical investment of the households the various items of fixed assets covered by NCAER are

- Agriculture;
- land improvement such as bunding, terracing, levelling, fencing etc.
- irrigation assets like wells, pumps, construction of channels etc.
- agricultural machinery and equipment
- farm houses, and
- other agricultural assets like bullock cart etc.
- Business;
- land and building
- plant and machinery
- other assets like transport equipment etc
- house property, both residential and non-residential
- gold and jewellery
- consumer durables

The inventory of agriculture based on rural capital assets was also exhaustively provided by O.N. Singh (1995). According to him the items requiring capital investments in agriculture are:

1) Purchasing machinery and agricultural implements such as tractors, threshers, power tillers, ploughs, disc harrow, cultivators, harvesters, combines, seed drills, etc.

2) Procurement and installation of plant and machinery in agro-based/allied projects such as air conditioning plants, deep freezing units, incubators, filling and packaging units, automatic quality control units, etc.

3) Installation of tube wells and/or pump sets along with electric motor or diesel engine for existing wells, lift irrigation channels or other required infrastructural network.

4) Sinking of new wells, deepening or repair of old wells, construction of storage tanks, etc.

5) Land development measures such as levelling of uneven land, contouring of sloppy lands, user reclamation, conservation of eroding top-soil, etc.

6) Purchasing herds of cattle/pig/goats/sheep etc., to start the respective projects.

7) Purchasing of drought animals such as bullocks, camels, pony, yak, etc., along with cart.

8) Cost of saplings and all maintenance cost during gestation period in case of exclusive plantation projects.

9) Construction of farm houses, cattle-sheds, sheds for processing of agricultural produce and godowns.
10) Procurement of pick-up vans for marketing of agro-based products.

11) Financing rural housing projects.

12) Cost of fencing of horticulture, floriculture, plantation crops and nursery beds.

13) Any other farm-activity associated with agriculture or allied sectors.

The list of items requiring working capital funds in agriculture was also prepared by O.N.Singh. The list is as follows:

1. Preparing land for cultivation.

2. Purchasing manures and chemical fertilizers.

3. Purchasing seeds including high yielding varieties and hybrid seeds.

4. Purchasing insecticides for controlling pests and fungicides for plant diseases.

5. Purchasing other chemicals like growth regulators/promoters, bio-harmones, medicines, preservatives, etc.

6. Purchasing small farm implements/tools, such as ploughs, spades, sickles, indigenous sprayers, dusters, trailers, etc.

7. Arranging stocks of feeds and fodder for cattle, poultry, fish, etc.

8. Arranging for minor repair and maintenance of the permanent structures/fixtures at the farm such as farm buildings, irrigation channels, machineries, network of drip/sprinkler irrigation, etc.

9. Meeting other recurring expenditures mostly in the form of labour charges and administrative and other overheads related to intercultival operations, harvesting, threshing, packaging, transportation, etc.

10. Increased working capital needs due to longer gestation periods in case of harvested crops retained for some time to get remunerative prices.
11. Meeting replacement cost of animals below optimum level of production such as in dairy, piggery, sheep rearing and goatery.
12. Working capital requirements related to adoption of latest technologies in agriculture and allied activities.
13. Meeting operating expenses such as fuel, operator's wages for machineries used in various agriculture and allied projects.
14. Purchasing new flock of poultry birds/fish seeds (medium and long-term) to start a poultry/fish farm as well as the cost of their subsequent replacements.
15. Payment of insurance premium for agricultural assets.

In our study, the rural capital assets considered in assessing the working of the rural capital market are two-fold; (1) non-agriculture related rural capital assets; and (2) agriculture related rural capital assets. Under the former category the items included are;

1) Rural housing,
2) Cattle-sheds,
3) Milch animals,
4) Bullocks,
5) Other cattle that includes sheep, goats, pigs and poultry,
6) Bullock carts,
7) Household furniture,
8) Durable household goods,
9) Investment on Education,
10) Expenditures on food, clothing and other domestic needs,
11) Expenditures on marriages, festivals, etc,
12) Expenditures on curing major diseases,
13) Investments by rural artisans and
14) Investments by petty businessmen.

Under agriculture related capital assets included in our study are;

1) Land,
2) Land development,
3) Irrigation such as (open wells/tube wells/well repair)
4) Electric motors/oil engines/other irrigation related materials
5) Sericulture shed, farm house and motor shed
6) Orchards
7) Tractors
8) Agricultural implements
9) Sericulture equipment, and
10) Investment on current agriculture.

Rural Capital Market

There are two different but, interrelated concepts, concerning rural credit which closely look as synonym. They are rural money market and rural capital market. However, subject experts have given separate dimensions to these concepts.

Though conceptually the distinction between a capital market and money market is easy to understand but ..... the precise point at which the money market blends into the capital market is difficult to
The line of demarcation between a money market and capital market is fast tending to be thin. Thus it is very difficult to determine with precision the area of operation of the two markets, but nevertheless, there is a convention to separate the one from the other. "Short-term credit contracts are generally included in what is known as the money market; the long-term debt contracts and equities are capital market instruments."9

According to Avadhani money market has no geographical constraints and relates to all dealings in money or monetary assets10. Which implies that the rural and urban differences have nothing to do with money market. Avadhani further states that "money market is a centre where borrowers and lenders of money and near money assets are put together. It may comprise a group of such markets for various types of money assets characterised by relative liquidity or nearness to money. Such assets may be called money, treasury bills or bills of exchange etc."11

Wilson, defined the money market as a "centre in which financial institutions congregate for the purpose of dealing impersonally in money assets."12

The purpose of money market was explained by Avadhani in very simple way that "money market provides a buffer between cash or liquidity and long term high return investments in the stock and capital market."13
The importance of capital market was well summarised by George Rosen. According to him, 'with a given labour force and with given techniques and natural resources, the developing process in the economy of the country requires, as one of its accompanying structural change, the development of capital market that will provide an adequate and properly distributed supply of finance to those entrepreneurs whether private or public who are exerting themselves for setting up new or to expand and modernise the existing industries.\textsuperscript{14}

Capital market has been looked as a complementary funding source. At an early stage, one realises that one's own funds are inadequate and there is no way out except to resort to external sources if one is determined at all to complete one's project. The external sources through which such finance is made available is the capital market.

Subrataghatak\textsuperscript{15} explains the character of Indian rural money market based on its dual character. According to Ghatak, "The Indian rural money market is distinguished by its duality with its organised and unorganised sectors, with different business practices and rates of interest. The organised sector consists of the commercial and co-operative banks and government agencies and the unorganised sector chiefly consisting of money-lenders and indigenous bankers of different types, landlords, traders and merchants." Author makes a
distinction between the money and capital markets. "The capital market deals with long-term money capital and the money market with short-term money capital."  

Avadhani looks at capital market both at wider sense and at focussed sense, The word “Capital Market” is used in a wide sense that includes new issues market, stock market, money market, government securities market. And in a focussed sense “Capital market refers to the market for raising of financial resources by the business enterprises, firms, government, semi-government bodies, PSUs (Public Sector Undertakings) and other organisations. Definitionally, the market comprises some who demand and others who supply these resources.” Author further explains that, “The functional basis of market is thus seen in mobilisation of savings for investment, increase in both savings and investment in the economy and to improve productivity of capital by activating the idle balances and increasing the velocity of circulation of money and credit and their use for productive purposes. These trends will lead to increased output of goods and services in the economy and larger industrial growth.”  

The above discussion points out that, the term ‘capital market’ refers to facilities and institutional arrangements the borrowing and lending of long-term funds. In our study the ‘rural capital market’ was limited to three sources of investible fund suppliers and fund users. The three sources of investible funds suppliers were: (1) own sources,
(2) institutional sources and (3) non-institutional sources. From these three broad sources, sub-sources were identified. Such sub-sources were; own sources – farm income (agriculture + agricultural labour), income from asset disposal and other minor sources; institutional sources – commercial banks, regional rural banks, co-operatives and government agencies; and non-institutional sources – money lenders, businessmen, land lords, and other minor sources.

The fund users consist of rural households, who borrow funds for investment purposes.
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4. RBI, All India Debt and Investment Survey, 1961-62.

5. RBI, Rural Credit follow up Survey 1958-59 published by V.M.Jakade for RBI, Bombay.


11. Ibid.


16. Ibid., p.6.
