CHAPTER I

INTRODUCTION

Statement of the Problem

India's economic development and rural development can't be seen in isolation from one another, and it is the latter that is going to be an important factor in deciding the path and speed of the former. The rural development in India, however, has neither been smooth nor steady and nor of higher magnitude. The limiting factor of rural development is expressed to be lack of useable resources especially in relation to the magnitude of population, and the failure of the system in properly utilising even those available resources. As in any other sector shortage of capital is considered as an inhibiting factor in optimally utilising the resources. The shortage of rural capital could be mostly linked to absence of rural capital market as compared to an established industrial capital market.¹

There exits a well established and dynamic capital market in the form of issues market, stock market, money market, government securities market etc., benefiting industrial development.² But in the case of rural development there exists only a faintly visible and stagnated capital market in the form of commercial banks, Regional
Rural Banks and cooperatives and some non-institutional agencies like business men and money lenders.

Added to this, in the process of economic development rural economic activities are bound to undergo structural change. Such changes could be in the form of innovative and hi-tech agriculture; like aquaculture, floriculture and tissue culture, biotechnology, non-farm sub-sector, rural industries, small, tiny and service sub-sectors and market-related self-employment programmes. As a corollary, the capital requirements for rural development are bound to multiply.

It is to be borne in mind that, with the passage of time, sugarcane, jute, cotton, juice and oil industries have attracted some capital spill over which is expected to have a limited impact on rural development. Of late, some sophisticated capital intensive projects like teak wood plantation and goat rearing have also attracted the urban capital market that led to the small spill over of its resources to rural areas. The spill over capital resources, however, are not the factors which are going to have any significant impact on rural development.

All the agencies that are involved in funding the capital requirements of rural areas have their own limitations to meet the capital needs of rural development. For example, the conventional bankers driven solely by the profit motive, on which the standard
financial sector reform focuses, are neither good nor interested in exploring the investment opportunities among small and unorganised producers nor in the self employment and service sectors.\textsuperscript{6}

In this context it may be appropriate to point out the 'status' of capital formation in agricultural sector, which forms the largest sector in rural development. A number of economists in the recent years have expressed that there has been a significant decline in public sector capital formation in agriculture during the decade of 1980s.\textsuperscript{7} They have also explained beyond doubt that, the decline in public sector capital formation is not only bad in itself, but it has also simultaneously led to a 'decline' in private sector capital formation. The reason for such thing to have happened, it has been contended, lies in the complementarity between public and private capital formation in Indian agriculture. The Planning Commission too expressed a similar conclusion. The Commission stated that "the complementarity between public and private investment is most pronounced in agriculture where public investment has stagnated or even declined in recent years. The decline in public investment has also induced a decline in private investment."\textsuperscript{8}

Agricultural modernisation and development are going to be major factors of rural development and the capital needs of agricultural sector are going to largely dictate the capital needs of rural areas. No doubt, the modernisation of agriculture and other
facets of rural sector are moving, but at a steady, smooth and slow pace towards achieving overall rural development. Mechanization of agriculture through bore wells, drip and sprinkler systems, tractors, transplanters and harvesters, post production equipments, advanced export oriented floriculture and packaging and transport systems all needed capital in a big way to provide a true ‘take-off’ to rural development. When, the poor rural households are not even able to meet the capital needs of their own house construction, cattle and draught power procurement and the traditional capital requirements at the farm level, it is unlikely that they can meet the capital requirements necessary for the modernisation of agriculture. Which mean, there is a grave need to mobilise the capital investments in the modernisation of agriculture and a capital market for the purpose.

Resource distribution is another prominent area that calls for capital investments in rural areas in a big way. Land and water are the prime resources of rural areas, which are distributed in a very skewed way leaving majority of the rural households without any share in them. If the resource poor households are to acquire part of these prime resources, investments are to be made in a big way while purchasing them from the owners of these resources. Not only prime resources but also many assets also are distributed favouring only fewer households. Any inter-transfer of these assets between different households favouring poorer strata also need investible capital
resources. Since the poor can't afford such huge investments, different agencies have to come forward in providing investible capital funds.

**Need for the Study**

There are three clearly visible sources of funding that are providing finances for rural capital formation. They are: own sources, borrowings from institutional sources and borrowings from non-institutional sources. The important sources among the own funds that finance the capital formation are the investible funds that are generated by way of surpluses, savings, dis-hording and selling of disposable assets to purchase some new assets.

Borrowing from institutional agencies and non-institutional agencies are the other important sources of investible funds. However, all these agencies and own funds have not been able to provide enough. Under the circumstances there is a need to develop a separate stream of rural capital market. But to do that, first we must understand and recognise the existing rural capital market and then suggest measures for the comprehensive development of rural capital market. The present study is meant to explore the existing rural capital market.

Most of the research in this area until now, was confined mainly to the assessment of the role of financial institutions (banks, cooperatives, etc.) in rural credit market and their impact on rural
development. But it is the rural capital market that is going to hinder or strengthen the process of rural development. It is in this context, the present study was taken up.

Study Area

To understand the rural capital market scenario, Anantapur district is purposively chosen. In a drought prone district like Anantapur, the incentive for investment and capital formation would automatically be poor. Agriculture remains a gamble with the monsoon in this part of the State. And, as a corollary, the income from agricultural sector and rural sector are always precarious and very limited. This is a cause and effect of low investment and low capital formation in Anantapur district. Due to low income, the rural households will have automatically, low investible resources leading to low capital formation. This low capital formation is bound to bring in only low income. These vicious circles of low capital formation and low income need to be broken to achieve any semblance of rural development. But the fundamental problem here is that, the well entrenched vicious circle can't break on its own. This scenario calls for heavy investment and capital formation. Which means the need for a well equipped self sustainable structure of rural capital market.
Scope of the Study

Rural capital formation is a very broad area for academic research. On this premise it is proposed to limit the scope of the study to the rural scenario of Anantapur district only. It is proposed to study only the fixed and semi-fixed capital investments in the rural areas of Anantapur district. The study focuses on capital investments made by different segments of the rural populace. The identification of various sources of funds for these investments is the prime mechanism used in eliciting the rural capital market of Anantapur district. The period of assessing rural capital market was limited to twenty years i.e., from 1980 to 1999.

The rural capital market comprises some who demand and others who supply the investible resources. The present study covers both these segments i.e., the households who seek investible funds and agencies that provide these investible resources.

Limitations of the Study

As already pointed out, rural capital market is under-established due to many factors. In the absence of maintenance of accounts by rural households about the estimation of own investible funds and investments, the information on capital formation is hard to arrive at. Due to heavy registration and other charges in capital asset transactions, particularly in the case of lands, under pricing of capital
assets are also not uncommon. The funds generated from institutional and non-institutional agencies for capital formation have also been mis-utilised many a time. Which means, even if we have the exact figures of investible resources procured from institutional agencies, that may not reflect the reality because, it can't guarantee the proper usage of this investible funds and capital formation.

The concept of rural capital does not fit into a definite framework. The rural capital devoid of agricultural capital is only a small fraction. The capital in rural sector can be divided into private capital and public capital. Most of the community resources are developed with public investments. We have not considered this aspect of public investments in our study. Hence, all rural capital formation is not within the scope of this study.

The rural capital also has the components of fixed and variable capital. However, a variable capital unit of one household in one year may become fixed capital for the next year and vice-versa. More important problem is that to arrive at different components of capital; that is, questions like whether land can be considered a capital asset or not. Hence, only such items which reflect as fixed and semi-fixed capital alone are considered for the study.

The rural development can't be achieved simply by acquiring physical capital assets alone. The transformation of traditional
agriculture and allied activities into modern economic activities involves optimum usage of acquired physical capital. The optimum utilisation of such physical capital becomes possible only when the personnel involved in their usage are well trained and healthy. Which means a good part of investment can be made in education and training. The present study covers only the component of rural physical capital formation and not all human capital. However, it makes a very limited attempt regarding the investments regarding education.

Objectives

The main objectives of the present study are:

1. To understand the private capital formation in rural areas;
2. To identify the share of different agencies in providing funds to rural capital formation;
3. To examine the trends in rural capital formation;
4. To examine the role of rural capital market in capital formation; and
5. To suggest measures for the better working of rural capital market and for the optimum utilisation of rural capital market.

Methodology

So as to meet the above objectives, both primary and secondary data has been utilised. The secondary sources of data used in this
study are Census Reports, Season and Crop Reports, Statistical Abstracts and Reserve Bank of India publications.

The primary data collected serves the main purpose of the present study. The primary data was collected with the help of specially designed and pre-tested schedule among a sample of 180 rural sample households. The sample are drawn by adopting multi-stage random sampling method.

For the collection of primary data, Anantapur district is purposively chosen. Regarding, the selection of sample households the following procedure was adopted. Firstly, all the villages in the three distinct administrative divisions of the district were listed out separately. From each division, two villages were selected by adopting random sampling method. All the households in the chosen village have formed our universe of sample. From each of these villages, 30 households were selected by adopting random sampling method. The sample so selected represented households of diverse socio-economic backgrounds.

The data and information was collected by adopting memory recall method. The data and information on rural capital formation and rural capital market was collected for a period of 20 years i.e., 1980-1999.
Chapter Scheme

The study is divided into seven chapters. Statement of the problem, scope and limitations, objectives and methodology of the problem are presented in the first chapter. The second chapter deals with the review of the literature. The conceptual framework used in the study finds a place in the third chapter. Chapter four is meant to provide a socio-economic profile of the randomly chosen sample rural households. The fifth chapter is intended to identify the agencies that are financing the capital formation in rural areas. The sixth chapter is again used to delineate the agencies that are financing the capital requirements of rural areas. However, the fifth chapter concentrates on capital formation related to non-agricultural activities and the sixth chapter concentrates on the capital formation in agricultural related activities. The concluding chapter summarises the major findings of the study and provides suggestions for running rural capital market on scientific lines.
REFERENCES

1. A detailed discussion on 'capital market' was presented in Chapter III.


5. Several private companies have announced primary capital market issues during mid-1990's, particularly with reference to teak wood plantations.


