CHAPTER I
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INTRODUCTION

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1.1. INTRODUCTION

Agriculture has been the fulcrum around which other economic activities of the society revolve. It functions as the core sector. Adam Smith remarked in his famous book on "An Enquiry into the Nature and Causes of the Wealth of Nations" almost two centuries ago that agricultural output in its widest sense is the basic working capital of a country in the initial stages of economic development. The proposition still holds true because in the present time, agriculture forms the base of the Indian economy. It provides not only food and employment for the millions but also forms basic foundation of manufacture and commerce to a vast proportion of the population in India.

Today, it contributes 33.0 per cent of the national income and about 70.0 per cent of India's total population derive their livelihood from agriculture. Nearly, half of the total export earnings are contributed by agricultural products such as tea, coffee, and species. In the context of India, the National Commission on Agriculture puts, "It has to grow at a rate much faster than before not only for
its own sake but also for sake of the economy as a whole. It has a large potential in contributing the national income while at the same time it provide direct employment and income to the numerically larger and vulnerable sections of the society". 

1.2. IMPORTANCE OF CAPITAL IN AGRICULTURAL SECTOR

The rapid development of agriculture and allied activities using modern science and technology holds the key for achieving economic growth. This type of agriculture will become capital intensive and farmers, like industrialists will need capital especially for the application of costly inputs like farm machinery, seeds, fertilisers and pesticides under assured irrigated conditions. In addition to such increased importance of capital, it has also been found that capital in the use of modern technology in agriculture, has not only increased productivity of land and labour but has proved to be more labour-absorbing than labour savings. In any economy, a large stock of capital implies, a larger amount of capital per worker and increases the productivity of labour and permits better economic development in the country. In India, such a role of capital is quite favourable, where, there is surplus labour and scope of diversion to urban sector is limited. Thus capital in agriculture can be
regarded as powerful engine for growth has been stated by Schultz as follows: "Once there are investment opportunities and efficient incentives, farmers will turn Sand into Gold". Nelson and Murray have also come to a conclusion that "it is the capital that improves farm sector and standard of living of people. The overall economic development of the country depends on rendering and making the capital active and productive but not mere augmenting the capital. No nation can afford to live without active capital.

In simplest sense, capital formation is very vital in order to derive more savings. The role of savings in the economic progress was well understood by economists throughout the centuries. The early classical economists recognised the importance of savings, investment, technological progress and economic development. Adam Smith emphasised that saving was a necessary condition for economic development. The neo-classical economists emphasised that willingness to save or thrift constituted a major requirement for development; and saving was a function of income and interest rates. According to modern economists, savings assumed greater importance as a major factor in the growth of the economy. Hence that the mobilisation of savings out of the incremental incomes
generated in rural areas in the process of economic growth is one of the important functions of various rural financial markets in India.

1.3. NEED FOR CREDIT

Importance of capital has made it an imperative for the transformation of agriculture from primitive characteristics to modern commercial farming, mechanisation of agriculture, and successfully implementing various input intensive development programmes accomplished by modern farm technology in India.

Nicholson has observed that the lesson of universal agrarian history from Rome to Scotland is that an essential input for agriculture is credit. Belshaw is of the opinion that development of agricultural sector is directly related to tackle the problems of rural credit. Murray and William put it, "Credit makes it possible for hired men to become tenants and for tenants to become owners. Moreover, credit makes it possible for farmers to take advantage of new machines, good seeds, fertilisers, livestock and labour, all of which enable farmers to organise and operate their farms on more profitable basis".
According to Mishra, to break the vicious circle in which the agricultural sector has been caught up, the first step should consist of a large injection of capital into agriculture. Schumpeter, a neo-classical economist spoke of credit "as phenomenon of development". Credit, thus plays an important role in stepping up and stabilising agricultural growth of the economy and also it is an important element in an integrated approach which covers advisory services for improving production and productivity through association of improved production technology, marketing, land tenures farmers organisations and other aspects which are inter-related.

1.4. ROLE OF RURAL FINANCIAL MARKET

The Rural Financial Market (RFM) facilitate transfer of funds from the suppliers to users and two, it allocates funds among competing users. In otherwords, mobilising rural savings and their allocation by way of lending are the twin objectives of rural financial market. In the process, earnings from the use of loaned funds are redistributed among suppliers and users. In this way rural financial market encourages rural savings and investment through transfer of surpluses from savers to users.
Rural Financial Market attempts to strike an equilibrium between demand for and supply of loanable funds in rural areas. It has specific impact on farm yield, risk and liquidity position of savers so that it matches with debt instruments. Supply of credit changes the location of savings to cater to the needs of distantly located users and promotes the inter-sectoral flow of funds from one sector to other. In the process of development of rural financial market, changes take place with the respective financial instruments, financial policies, financial intermediaries, so that the nature extent of financial services are geared to meet credit demand.

Hence, that the rural financial market is very much responsible for the establishment of various financial institutions whether working as mobilising and lending or simply catering to the needs of funds of various ventures. In this process, the role of financial institutions become self-evident. Thus, capital formation mainly depends "on the effectiveness of the institutions which funnel the money capital flows".

1.5. STRUCTURE OF RURAL FINANCIAL MARKET

Credit is an ability to get loan from some individual or agency. In the financial sense, credit is the confidence reposed in a person which enables him to obtain
from another, the temporary use of a thing of value. It may be accorded on the security of real estate in different forms depending on kind of security taken. Thus, credit is the device for facilitating the temporary transfer of purchasing power from those who have surpluses of it to those who are in need of it.

Rural Financial Market in India consists of two segments. First, formal segment i.e., organised money market is institutional and officially monitored and regulated, comprising the Co-operatives, Commercial banks and Regional rural banks. This is characterised by large scale operations, offering a wide range of financial services over a geographical expanse that exceeds regional, even national boundaries. It is protected by legislation, controlled by the Central Bank and supported by the state and the national and international banking community.

Second, informal segment is known by many other names: un regulated or un-organised money market, informal finance, informal credit market and parallel or indigenous financial market. The term covers the activities of a great number of intermediaries such as Money-lenders (both Professional and non-Professional money-lenders), Pawnbrokers, Indigenous bankers (Multanis, Gujarati Shroffs, Marwaris, Nattukottai
Chettiyars and Kallidaikurichy Brahmins), Traders and Commission Agents, Nidhis and Chit funds. It also contains self help groups like guilds and other professional, recreational and religious organisations, and a great number of rotating and non-rotating savings and credit associations. Finally, it covers private borrowing and lending arrangements among friends, neighbours and relatives. The essential characteristics of the unorganised money market are its fragmentation and specialisation, its localised and small scale operations which are beyond the reaches of official regulation and control by the Central Bank. Most of its transactions are not recorded in official statistics.

Among the banking industry, the un-organised and organised money market in India has all along been a pace setter in providing credit and devising new schemes for financing all sectors in the rural economy. Similarly, in the field of rural credit, the rural credit policy aims at improving the socio-economic status of rural people in particular and country's economic development in general.

1.6. SCOPE OF THE STUDY

The present study is undertaken with a view to analyse and assess the role played by un-organised and organised money market in India for the supply of agricultural credit
to the rural cultivators and particularly to evaluate the performance and efficiency of these market in the context of credit system of Tamil Nadu. Secondly, with the available literature on these issues, rural financial market has been analysed by making an in-depth study of the organisational and procedural framework of the rural credit delivery system.

1.7. OBJECTIVES

The overall objective is to assess the organisation of rural financial market and interaction between the unorganised and organised money market in Tamil Nadu state. More specifically, the objectives are:

1. To study the demand for and supply of rural credit in India;
2. To examine the organised money market for the supply of credit to agricultural sector in India;
3. To study the nature of un-organised money market in India in terms of average amount of cash borrowings, outstanding debts and purpose for which credit was borrowed; and
4. To analyse the role of rural financial market (both organised and un-organised) in the credit system of Tamil Nadu.
1.8. HYPOTHESES

The following hypotheses has been taken up for testing while pursuing the objectives of the study.

1. Deployment of agricultural credit by commercial banks are more than co-operative banks after 1985;
2. In un-organised money market, the money-lenders and traders form major entity than all others; and
3. Inspite of the significant expansion of organised money market, the un-organised money market continue to play a dominant role in the credit system of Tamil Nadu.

1.9. METHODOLOGY

Tamil Nadu in the southern region of India is examined more intensively on various aspects mentioned in the objectives of the study, for three decades from 1951-52 to 1981-82, since 1981-82 data is the latest available data for un-organised money market.

The study is mainly based on secondary data. They were mainly obtained from published and unpublished sources. Data were also obtained from the Reserve Bank of India viz., All-India Rural Credit Survey Report, All-India Debt and Investment Survey Report, Banking Statistics - Basic
Statistical Returns (Summary Results), Report on Currency and Finance (Statistical Statements), Report on Trends and Progress of Banking in India, Statistical Tables Relating to Banks in India and Statistical Statements Relating to Cooperative Movement in India. Important data on credit and non-credit co-operative credit societies and statistics on regional rural banks were also collected from NABARD, Economic Surveys, Plan Documents, Reports on Various Banking Enquiry Committees and Reports of National Commission on Agriculture. Some unpublished data were collected from the District Statistical Office (DSO) and regional bank branch offices of the commercial banks.

The data has been classified and arranged in tables. Further, to find out the performance of these market with regard to their borrowings, outstanding debts, repayment of old debts, number of branches and deposits, the simple percentage analysis has been used to realise the objectives of the present study.

1.10. CHAPTERISATION

The thesis contains seven chapters. Chapter I contains the scope of the study, objectives and hypotheses and the chapterisation. Chapter II presents a brief review of relevant literature in the present study. Chapter III explains the demand and supply of rural credit in India and
also provides an assessment of the demand projections for further analysis of supplying rural credit structure in India. Chapter IV reviews the organised money market in India, right from 1903 when co-operatives emerged as the only organised credit market. Subsequently analysis is made on the present position by examining the number of institutions, branch deposits, advances and overdues of co-operative credit societies, commercial banks and regional rural banks. Chapter V deals with un-organised money market in India. A brief description and analysis of the structure, organisation and functions of the various un-organised money market such as Money-Lenders, Indigenous Bankers, Shikarpuri Shroffs or Multanis, Gujarati Shroffs, Nattukottai Chettiyars and Kallidaikurichy Brahmins, Marwaris, Traders and Commission Agents, Nidhis and Chit Funds are presented in this chapter. Role of rural financial market - A case study of Tamil Nadu has been analysed in the VIth chapter. VIIth chapter presents a summary and conclusions emerging from the study.
NOTES AND REFERENCES


