CHAPTER II
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REVIEW OF LITERATURE

2.1 Introduction

2.2 Un-organised Money Market

2.3 Organised Money Market
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2.1. INTRODUCTION

In a developing country like India, the financial market in general and rural financial market in particular play an important role for socio-economic development of the country. It is subjected to empirical validity and reliability to provide data for formulation of right policy. So, an effective banking system always needs a thorough and continuous enquiry into the nature of, the reasons for and the consequences of a set of variables both inside and outside the organisation. The present study, thus form an important one in exploring and assessing the role, structure, organisation and functions of rural financial market in India.

Review of literature on rural financial market can be divided into two, namely un-organised money market and organised money market.

2.2. UN-ORGANISED MONEY MARKET

Credit needs of the farmers ought to be considered as a whole and not be confounded to production purposes only but also for consumption purposes. This would resultant, till
recently money-lenders play a significant role in providing credit to the farmers. Apart from indigenous bankers or chettiyars and others are revealed from various studies.

1 The Report of the Bombay and Burma Provincial Banking Enquiry Committee revealed that, indigenous bankers and village money-lenders are the main source of finance for industries and agriculture in India. Not only this, but also it was the trusted custodian of the deposits of the people and royalty alike and financed not only the trade of the country, but also the requirement of the royal treasury.

3 Bhargava concludes that the proportion of money-lenders in financing money to the agriculturists during the famine and flood or at the beginning of the agricultural season was found to be very large in a country, where the poverty was general and rainfall was uncertain. Sri Malcom Darlings Report and Preliminary and Statutory Reports revealed that during the first three decades of the century, the village money-lenders was the main source of finance for farmers.

6 Report of the Agricultural Finance Sub Committee revealed that "money-lender is the most important constituent of the agricultural credit machinery of the country during the period of 1930's. The credit dispensed
by him instead of contributing to the agricultural prosperity of the country serve as a serious drag on it". 

Sharma in his study observed that money-lenders could be transferred into the agents of the commercial banks. Bhaduri in his study concluded that the money-lenders remain powerful and their dealings are an obstacle to progressive changes in rural economic life.

Von Pischke et.al in their study observed that they tend to idealize that informal credit market that did exist or that might have existed in the absence of the massive government intervention in the credit market. Ramanathan Chettiyar, Muthupalaniappa Chettiyar and Shoji Ito concluded that nattukottai chettiyars or indigenous bankers play a dominant role to provide credit in both the rural and urban sectors of the country and they also act as a joint stock trading companies.

2.2.1. SUPPLY OF CREDIT

Credit is required to meet the additional expenditure. Thus, credit assumes more importance only after the adoption of new technology. However, the adoption of improved technology depends on the extent of availability of credit. The availability credit from un-organised money market has been examined by various research workers, a review of whose works is given below.
The Report of the Central Provinces Provincial Banking Enquiry Committee revealed, that the total sum of Rs.36.47 crores of agricultural debts, i.e., 82.85 per cent has been advanced by mahajans or indigenous money-lenders, 11.80 per cent by landlords, 2.75 per cent by co-operative credit banks while remaining 2.60 per cent is due to government.

The various Reports of Reserve Bank of India on the Multi-Agency Approach in Agricultural Finance, All-India Rural Credit Review Committee, and All-India Debt and Investment Survey Committee revealed, that the share of non-institutional sector in the total borrowings of farmers has recorded a reduction from more than 92.7 per cent in 1951-52 to 81.3 per cent in 1961-62, 68.3 per cent in 1971, 65.0 per cent in 1978 and about 36.8 per cent in 1981. Among these, the short and medium term credit requirements of agriculturists met by the money-lenders were reduced from 69.7 per cent to 49.2 per cent in 1951-52 to 1961-62. Again the share has further slumped to about 36.1 per cent to 16.1 per cent in 1971 to 1981.

Reserve Bank of India conducted certain Follow-Up Surveys which revealed that, the agriculturists money-lenders have become the most important source of credit, supplying 36.0 per cent of the borrowings in 1961-62 as against 24.9 per cent in 1951-52. Similarly the
professional money-lenders accounted for only 13.2 per cent of the borrowings in 1961-62 as against 44.8 per cent in 1951-52.

All-India Rural Credit Survey Committee revealed that the total borrowings of rural cultivating families in 1951-52 was Rs.750 crores. Of which the relative share of moneylenders credit to total was at 69.7 per cent, relatives at 14.2 per cent, traders and commission agents at 5.5 per cent, others at 1.8 per cent, landlords at 1.5 per cent and the remaining share such as 7.3 per cent was contributed by institutional sources.

The Study Group on Indigenous Bankers in India observed that the short and medium term credit requirements of the agricultural sector in 1969-70 would be the order of Rs.2500 crores. Of this, credit from institutional sources estimated as at Rs.1250 crores and the remaining 50.0 per cent of credit gap would be met from indigenous bankers.

Ramamoorthy et al observed that about 75.66 per cent of the total loan requirements of the small farmers were met by the money-lenders in two districts of Tamil Nadu in 1971.
Subrata in his book concluded that the un-organised agencies, particularly the money-lenders were fairly strong in the supply side despite some advances of the organised agencies between 1951 and 1968. They supplied about 70.0 per cent of total credit in India.

Patel's study of micro level, found that the non-institutional source of finance dominated a major role in providing credit viz. 81.0 per cent of the total finance. Amongst institutional sources, 11.0 per cent was supplied by commercial banks and 8.0 per cent by co-operative institution. Similarly, in case of the average credit per acre of net operated area was Rs. 9 and Rs. 6 were supplied by commercial banks and co-operatives. As against this, the finance supplied by non-institutional agencies amounted to Rs. 64 per acre of net operated area.

Virginia Thompson, Dandekar, Tunwai, Krishnan, Bottomley, Karkal, Singh et.al, Das and Rout, Rao, Nakkiran and Haque and Verma revealed that the percentage share of total credit requirements of the farmers were provided by money-lenders which ranges between 25 to 75 per cent in India.
2.2.2. CREDIT USE

The distribution of credit by money-lenders appears to be disproportionately biased in favour of larger land owners. The result is that un-organised money market credit does not reach the small farmer in any greater quantity for production purpose than consumption purpose.

Report of the Rural Banking Enquiry Committee and Report of the committee on Finance for the Private Sector revealed that money-lenders and indigenous bankers have occupied a predominant position for the supply of rural credit to the agriculturists and internal trade for a centuries ago. Among these, the indigenous bankers alone financed nearly 75.0 to 90.0 per cent of the total internal trade of the country.

Vakil and Lakdawala in their study observed that the bulk of production and marketing finance was provided by the indigenous bankers, money-lenders and village merchants. Further they have estimated that the financial requirements for agriculture and marketing were more than two-third of their loans supplied by indigenous bankers in towns and village money-lenders in the villages at the rate of 7 to 8 per cent interest rate in 1960.
Hanumantha Rao in his study showed that number of farmers who borrowed from money-lenders was high in the category of small farmers. Further, he concluded that the small farmers were not in a position to invest more on land to produce any surplus. With the result they were handicapped in building up the assets structure.

Sharma et.al in their study concluded, the private money-lenders and village traders who are still the important agencies supplying loans to the farmers for different purposes, and it was found that loans were equally distributed among all the size groups of the area under study.

Rao and Rao undertook a study with the objective of examining the role played by informal and institutional agencies in the supply of credit for financing modern inputs. The study revealed that informal agencies or sources met 61.0 per cent of borrowings.

The Study of Rajput et.al found that the average borrowings of small farm size group was comparatively higher than other farm size groups. It revealed that the unorganised sector were still largely financing credit to small and marginal farmers for consumption purposes and also for purchase of small piece of land.
Ramakrishna in his study revealed that, the non-institutional sources fulfilling capital needs for productive purposes. The proportion of borrowing was nearly 70.0 per cent from agricultural money-lenders at 18 per cent interest rate and above.

2.3. ORGANISED MONEY MARKET

The village money-lender and indigenous bankers and others are the traditional sources of agricultural credit in India. However, the farmers find some disadvantage in terms of their cost of finance, usurious rate of interest and such malpractices like grab policy. Among that an attempt has been made by government from time to time and introduced a new agency for providing credit to the farmers, which came into the existence in 1904, in the form co-operatives or co-operative banks.

The Informal Group on Institutional Arrangements for Agricultural Credit was appointed by the Reserve Bank of India. The main task of the group was to review and analyse the financial position of co-operative societies. It suggested traditional and supplementary arrangements for institutional agricultural credit to be operative till the co-operative credit movement was sufficiently strengthened.
Jain in his study found that the rural credit societies advanced loans amounting to Rs.258 crores in 1961-62 as compared to Rs.23 crores in 1950-51. Among this, the increase in the proportion of co-operative finance was 15.0 per cent in 1961-62 from 3.11 per cent in 1951-52. Hence, he suggested that co-operative sector has began to occupy a strategic role in the field of rural credit.

Chowdhary and Ohja had analysed the performance and suitability of co-operative credit in High Yielding Variety areas and had drawn conclusion that about 45.0 per cent of credit requirements was met by the co-operatives.

In the study conducted by the National Council of Applied Economic Research (NCAER) in 1970-71 it was found that, the co-operatives supplied 22.7 per cent of the total credit requirements.

Bhatia's study revealed that the co-operative societies were active and provided 40.0 per cent of the credit for both types of small and large farms. Similarly, in case of per farm borrowing was higher on the large farms, but the per hectare borrowing was higher in small farms.

Behari et.al have found that availability and sources of credit indicated that 62.29 per cent of total credit was met by the co-operatives in case of small farms followed by
relatives and money-lenders. The medium and long term credit was met by land development bank to the context of 97.08 per cent.

48 The Reserve Bank of India in their report on survey of state and central co-operative bank advances in 1977 reviewed that, about 79.3 per cent of co-operative finance were distributed by primary agricultural credit societies, whereas the remaining 4.8 and 15.9 per cent were met by the state and central co-operative banks respectively.

49 Jain conducted a study on co-operative and agricultural finance in India revealed that, the co-operatives alone annually disbursed around Rs.1250 crores in 1979-80.

50 All-India and Debt and Investment Survey Committee Report revealed that for several years, the supply of agricultural credit by co-operatives were increased, inspite of their government support and ranges from 3.3 per cent to 29.9 per cent in 1951-51 to 1980-81.

51 Arumugam undertook a study revealed that the rural financial institutions supplied 28.0 per cent of the credit needs of the farmers.
Gunasekaran in his case study observed that the co-operative societies played an important role in financing less affluent cultivators. In 1979-80, the co-operatives alone accounted for about 55.9 per cent and 53.6 per cent of the total credit needs in Kuttalam and Kumbakonam blocks respectively.

Sidda Goud in his study concluded that the share of co-operative credit increased a mere 3.1 per cent in 1950-51 to 37.5 per cent in 1985.

Haque and Maji conducted a study on structure and flows in agricultural credit in India and revealed that the marginal and small farmers with less than two hectares of land accounted for 21.0 per cent of the total cultivated area and received 32.0 per cent of the medium and long term credit advanced by land development banks in 1974-75.

2.3.1. CREDIT USE

The loaning programme becomes meaningful only when it is supported by proper utilisation of loan for which it is meant. In this context, the Reserve Bank of India in its manual pronounced that, "Whatever may be the extent of credit facility provided by co-operatives, it is essential that their lending policies are designed to help the production and at the same time to ensure the proper utilisation of the money lent".
Shetty in his study on utilisation of co-operative credit undertaken by the Programme Evaluation Organisation of the Planning Commission (1965) revealed that among 946 borrowers in 1960-61, about 23.0 to 35.0 per cent of the amount of short and medium term loans were diverted to unproductive purposes.

A PEO publication revealed that nearly 73.0 per cent of the short term co-operative loans were borrowed for current agricultural purposes, 12.0 per cent for consumption and household expenses, and 9.0 per cent for the purchase of livestock.

Venkataram in his study concluded that about 50.0 per cent of increase in loan funds available from co-operatives indicates full utilisation of all cultivable land with modern inputs and provide about 52.0 per cent of increase in net farm returns.

Shankar and Srivastava in analysing the HYVP in relation to credit availability have found that the share of co-operatives in supplying farm credit was 55.0 per cent. The corresponding figure of HYV paddy loans came to 58.0 per cent.
Parikh and Sharma in their study have found that about 71.3 per cent was utilised for one or the other farm purposes, whereas the remaining 28.7 per cent was found to have been spent on unproductive items of consumption, social ceremonies etc. It was noteworthy that small farmers diverted only about one-fifth of the crop loan amount to unproductive purposes as against more than one-third by the large farmers.

2.3.2. OVERDUES

In principle, it is presumed that the loan should be collected if the borrower is free from percolated conditions. Most of the farmers inspite of their ability to repay the amount could not show the same eagerness in clearing their dues. This phenomenon calls for an efficient and effective recovery machinery. A few researchers have conducted surveys on overdues in co-operatives in India and echoed great grief on the overdues of co-operatives and suggested an effective recovery machinery for better recovery of loans. By whom the surveys conducted are given below: Rizvi, Surendranath and Raman, Study Team on Overdues, Dadhich, Chaplot, Palaniappa Mudhaliar, Report of the Expert Committee on Co-operation and Kalyankar.
To sum up this literature, the credit co-operatives provided credit only to the agricultural sector in terms of both short and medium term loans and totally neglected the priority sector of the country. With the result, the commercial banks have been assigned a big task for financing agricultural sector particularly to the priority sectors of the economy.

2.3.3. COMMERCIAL BANKS

The following section deals with a brief review of literature with reference to credit provided by commercial banks.

The Indian Central Banking Enquiry Committee dealt with the role of commercial banks in rural credit, observed that the joint stock banks play little direct part, and the imperial bank much less in the supply of credit to the agriculturists and that these banks do not look upon agricultural finance as part of their general business.

All-India Rural Debt and Investment Survey made a study on in-depth problem of rural credit and role of commercial banks in meeting the credit needs of rural sector, and revealed that the part attributable to commercial banks showed a small decline from 0.9 percent in 1951-52 to 0.6 per cent in 1961-62.
All-India Rural Credit Review Committee rightly stated that the institutional finance provided to the farm is not commensurate with the priority accorded to it. For instance, in India about 50.0 per cent of the gross national income comes from the farm sector but commercial banks meet only 9.4 per cent of the rural credit.

Agarwal in his study showed that, for the phenomenal growth of institutional credit facility, commercial banks are contributing a major portion of the total supply of agricultural credit, whereas other institutional agencies do not provide dependable dues on account of misuse and non-repayment of credit.

Sinha in his study concluded that financing agriculture, commercial banks play a more dynamic role in agricultural development of the country and by increasing their lendings to agricultural enterprises. The amount of credit provided to agriculture by these banks were increased from 5.8 per cent in 1969 to 8.6 per cent in 1973.

Bank of Baroda made a study on commercial banks and agricultural finance in India and revealed that about Rs.1335 crores were provided by commercial banks as against Rs.1299 crores by co-operative credit societies in 1976.
As per the Report of the Expert Group during the year ending June 1977, total institutional loans issued directly to the agriculturists amounted to Rs.2029 crores in which commercial banks accounted for Rs.1400 crores. Hence, the group opined that there was a substantial growth in the flow of commercial banks credit to the agricultural sector after nationalisation of the 14 major commercial banks in the country.

Basu's study pointed out that, although commercial lending to agriculture increased several fold, such financing was not regionally equitable. The level of agricultural credit per hectare of net sown area was determined by the per capita bank credit, number of bank offices, per lakh population, per capita bank deposits, degree of urbanisation and intensity of cultivation.

All-India Debt and Investment Survey Committee Report found that the commercial banks had almost neglected agricultural sector with regard to agricultural financing still 1968. However, after the nationalisation of commercial banks in India, the percentage share of commercial banks credit to total credit requirements was at 29.4 per cent in 1981-82 as against only 0.6 per cent in 1961-62.
Bilgrami in his study revealed that the percentage share of priority sectors to total advances by the public sector commercial banks has been increased from 14.9 per cent in 1969 to 33.0 per cent in 1979. Among the priority sectors, the share of agriculture has been increased from 5.5 per cent to 14.1 per cent in respective years.

Rana in his study on commercial bank credit to agricultural sector finds that the share of agricultural advances in total outstanding bank credit of public sector banks was 15.9 per cent in 1981 as against 5.3 per cent in 1969. In comparison to various priority sector, it has increased from 36.7 per cent in 1969 to 43.7 per cent in 1981.

Sharma in his study found that before nationalisation of banks, the role of commercial banks in agricultural development was quite insignificant, i.e., total advances to agricultural sector was accounted only 0.3 per cent in 1968 but in 1980 it constituted about 15.0 per cent. Similarly, there is a close integration between industries and commercial banks. It constituted about two-third of the total bank advances.
Husain in his study reviewed that the performance of public sector commercial banks in providing credit is quite impressive. Total advances of priority sector credit by public sector commercial banks were increased from 14.9 per cent in June 1969 to 36.3 per cent in June 1982. Thus, in advancing loans banks have started to seeing credit worthiness of purpose instead of credit worthiness of person.

Balishter and Roshan Singh in their study finds that about 94.0 per cent of total credit was availed from institutional agencies and the remaining 6.0 per cent from non-institutional agencies. Among these, the total loan available to the farmers by commercial banks alone accounted for about 82.0 per cent and co-operatives were only 12.0 per cent.

Singh and Asokan in their study observed that the total advances of agriculture by commercial banks were increased over ten-fold from 1973-74 to 1984-85, whereas the co-operatives increased only two and half fold during these periods.

Thus from the above studies, there is ample evidence to conclude that commercial banks are mostly used to provide credit to the priority and neglected sectors of the economy.
Among that further an attempt has been made to review the RRBs growing credit requirement of agricultural sector and the rural poor was felt in 1974. The RRBs are supposed to combine the local feel and familiarity with rural problems.

2.3.4. REGIONAL RURAL BANKS (RRBs)

Wadhava made a comprehensive case study on the RRBs in India. The study revealed that RRBs inherited complicated procedural formalities from their sponsoring banks and RRBs were not able to meet the targeted disbursement of credit (Rs.5 crores in a year) set by Government of India. The study indicated some probable reasons for the shortfall in meeting the targeted level of loan business. There were: limited scope for direct lending by regional rural banks in the area of their operation, the absence of their effective links with the primary agricultural credit societies and farmers service societies, and lack of adequate support from the government for expanding business.

Kelker Committee observed that RRBs, as a part of the multi-agency approach to rural credit are mainly suitable to do the job envisaged for them, that as district level agencies they can be entrusted to take banking closer to rural households and ensure effective supervision of end-use of credit and that RRBs can exist side by side with co-operatives and commercial banks.
Bhaskar et al., Vijayakumar and Gurunath in their study concluded that the RRBs are specialised agencies for rural lending as well as ultimately added new dimension to Indian commercial banking system.

Tripathi, Velayudham and Sanakaranarayanan in their study revealed that about 60 to 80 per cent of RRBs advances were claimed by agriculture and allied activities. The remaining 20 to 30 per cent advances were shared by rural artisans, village and cottage industries, consumption loans and other purposes.

A valuable information may be found in the above studies but does not supply much for understanding the role, structure, organisation and functions of rural financial market in India. The present study will fill contribution of knowledge regarding rural financial market in Tamil Nadu as such no study has been undertaken in this state so far.
NOTES AND REFERENCES


64. Dadhich C.L. (1977), Overdues in Farm Co-operative Credit - A Case Study of Rajasthan, Popular Prakashan Private Ltd., Bombay.


