INTRODUCTION

Shortage of capital is considered as an inhibiting factor in optimally utilising the available resources of a country. Indian rural development too faces shortage of capital. The structural changes in rural economic canvass in the form of hi-tech agriculture through aquaculture, floriculture, tissue culture and biotechnology and innovative non-farm sub-sector, rural industries, small, tiny and service sub-sectors and market related self employment programmes are bound to take place in rural India. As a corollary, the capital requirements for rural development are expected to multiply. However, the public sector capital formation in agricultural sector, which forms the largest sector of rural economy, has been facing a significant decline. The decline in public sector capital formation has led to a decline in private sector capital formation. Irrespective of this sad scenario, mechanisation of agriculture through bore wells, drip and sprinkler systems, tractors, transplanters and harvesters, post production equipment, advanced export oriented floriculture and packaging and transport system 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, procurement of cattle and draught power and meet 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 means, there is a dire necessity to mobilise the capital investments from a capital market.

All the prime resources of rural area, including land and water, are distributed in a very skewed way leaving majority of the rural households without any share in them. Inter transfer of these assets between different households favouring poorer strata need capital resources in a big way. Since the rural areas and rural poor can not afford such huge investments capital market needs to be tapped.

However, 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 reforms focus, are neither good nor interested in exploring the investment opportunities among small and unorganised producers nor in the self employment and service sectors of rural areas.

The shortage of rural capital could be mostly linked to the absence of rural capital market as compared to an established and dynamic industrial capital market. The rural capital market at
present is stagnated. Hence, the rural capital market needs to be properly understood and assessed so as to foresee a positive role for rural capital market in rural development. The present study aims at analysing the existing situation regarding formation and working of the existing rural capital market.

The main objectives of the present study are: 1) to understand the status of 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.

To understand and assess the working of rural capital market, the investments made by rural households and different sources from where these funds were mobilized were studied. The investment practices and sources of funding of the 180 sample households drawn from six villages, spread over all the three constituent revenue divisions of Anantapur district formed the basis of our study.

Review of Literature

The major areas that need heavy capital investments to achieve a true 'take-off' in achieving rural development are three fold viz., agriculture, asset redistribution and housing. The review points out a continuous decline in public and private investments in agricultural
sector. The researchers are more or less unanimous in stating that the Indian agriculture seems to have struck a long term low level of equilibrium position in capital formation.

The rural assets are distributed in a highly skewed way requiring large amount of capital funds for taking up the redistribution of these capital assets in an acceptable frame, if not in an equitable manner.

Rural housing, the third important area is being neglected for years. And, rural housing can no more be neglected, particularly in the context of more rural people living in houseless conditions. The Indian rural capital market, as it has evolved in India, operates through two sets of institutions in the formal and informal sectors. The formal sector evolved through a multi-agency practice includes co-operatives, commercial banks and regional rural banks. The informal sector operates out side this formal system and consists mainly of rotating savings and credit associations, traders, merchants, commission agents, landlords and local money lenders. The former is governed by the existing rules and regulations in financial sector, where as the later largely functions in an autonomous fashion with its own norms, rules and discipline.

The Indian rural capital market seems to be undergoing a metamorphasis with the liberalisation practice adopted by India. There is an invisible redesign of institutional financial agencies, that
are to make profits in the context of Narasimhan Committee Report.
In this context, there is a need for proper assessment of the working of
rural capital market. A significant decline of the role of non-
institutional agencies in rural capital market is also visible.

**Rural Capital Market – A Conceptual Framework**

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 list of rural capital assets differed in content based on the agency involved in conducting the study and the purpose of the study.

In our study, the rural capital assets considered in assessing the working of the rural capital market are two-fold viz., 1) non-agriculture related rural capital assets; and 2) agriculture related rural capital assets. Under the former category the items included are; rural housing, cattle sheds, milch cattle, bullocks, other cattle (sheep, goats, pigs and poultry), bullock-carts, household furniture, durable household goods, investment on education, expenditure on food, clothing and other domestic needs, expenditure on marriages, festivals and ceremonies, expenditure on curing major diseases, investments by rural artisans and investments by petty business men.
Agriculture related capital assets included in our study are: land, land development, wells, irrigation related equipment, sericulture sheds, farm houses, motor sheds, orchards, tractors, agricultural implements, sericulture equipment and investment on current agriculture.

The term 'capital market' refers to facilities and institutional arrangements available in borrowing and lending of long-term funds. In our study the 'rural capital market' was limited to three sources of investible fund suppliers. 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: 1) own sources – farm income (agriculture + agricultural labour), income from asset disposal and other minor sources; 2) institutional sources – commercial banks, regional rural banks, co-operatives and government agencies; and 3) non-institutional sources – money lenders, business men, land lords, and other minor sources. The fund users consisted of rural households, who borrow the funds for investment purposes.

Socio-Economic Profile of the Sample Respondents

The sample villages represent six different sizes, both in geographic and demographic, different levels of agricultural development and different occupational and literacy levels.
A total of 180 respondents/households formed our sample. Among them, 19.4 per cent belong to Scheduled Castes, 2.2 per cent to Scheduled Tribes, 41.7 per cent to backward castes and the rest 36.7 per cent to forward castes. About 21.1 per cent of the sample households are nuclear and the rest 78.9 per cent are joint families. More than 57.2 per cent of the respondents are in the age group of 31-50 years. About 60.5 per cent of our sample respondents are literates and the rest 39.5 per cent are illiterates.

Only 36.7 per cent of the respondent households are living in pucca houses, 3.1 per cent are living in semi-pucca houses, 28.9 per cent in thatched houses and the rest 3.3 per cent in huts. About 60.0 per cent of the respondent households have official electricity connection and the rest 40.0 per cent depend on illegal electricity connection.

As many as 70.6 per cent of the respondents are agriculturists, 16.1 per cent are labourers, 6.1 per cent depend on sheep rearing and the rest 7.2 per cent are employed in other activities.

About 15.6 per cent of the respondent households are landless, and 48.4 per cent have more than 10.0 acres each. About 18.3 per cent of the respondents have between 5.0 acres and 10.0 acres, 8.3 per cent are having between 2.5 and 5.0 acres and the rest 9.4 per cent have less than 2.5 acres. The land distribution is highly skewed against Scheduled Castes and Tribes.
The average value of the household and other assets owned by the households are Rs.33,164. Of these assets, 47.6 per cent are in the form of agricultural implements, 8.5 per cent in household articles, 16.8 per cent in ornaments, 21.7 per cent in livestock and the rest 5.4 per cent in others. This asset structure was also skewed against Scheduled Castes and Scheduled Tribes. The average asset value per household was Rs.7,114 in the case of Scheduled Castes, Rs.7000 for Scheduled Tribes, Rs.27,546 for backward castes and Rs.54,946 for forward caste households.

The average income of the households of the sample respondents was Rs.28,039 per annum. The average household income was Rs.10,142 in the case of Scheduled Castes, Rs.11,500 for Scheduled Tribes, Rs.27,361 for backward castes and Rs.39,303 for forward castes. About 26.1 per cent of the sample respondents are living below the poverty line.

As many as 78.3 per cent of the sample households are in debts. All the 35 households of the Scheduled Castes and all four Scheduled Tribes are in debt. As compared to this, 76.0 per cent households of the backward castes and 61.9 per cent households of the forward castes are in debt. The per household debt was Rs.15,523. The average debt per household was Rs.6,800 among the Scheduled Castes, Rs.5,300 among Scheduled Tribes, Rs.15,187 among backward castes and Rs.21,152 among forward castes.
The main problem faced in estimating the capital investments made was 'period of accounting'. We decided upon three 'time frames' in the analysis of capital investments. First is a twenty-year period; this is used only in such economic activities which are too important to be forgotten in one's life time. Second is a five year period; this is used only in such economic activities which cannot, generally, be remembered beyond a quinquennium. Third one is a one year period; this is used in such economic activities which cannot be remembered beyond a year or two. In case of such economic activities where twenty year period was considered in assessing the capital market trends in the quantum of capital investments and the trends in the different sources of funding was also arrived at.

Out of 180 sample households, 39 households (29.7 per cent) have reported the construction/extension/modifications of their living houses. The per household expenditure was Rs.27,628 during the last five years by these 39 households. The share of own funds in investment on housing was about 48.7 per cent, non-institutional sources accounted for 42.7 per cent and the institutional sources as small as 8.6 per cent. Even this 8.6 per cent is reflective of only government supported welfare housing schemes meant for Scheduled Castes, Scheduled Tribes and backward castes. This signifies the fact
that, the so-called housing schemes, subsidies, tax concessions, financial support from banks, housing corporations etc., did not help the rural housing by their contribution.

Of the total 180 sample, 15 households (8.3 per cent) have constructed cattle-sheds during the last five years at an average cost of Rs.15,000. Own funding accounted for 52.0 per cent in cattle shed construction, the share of non-institutional sources was 41.7 per cent and the share of institutional sources was negligible.

Own funds are important sources at 52.3 per cent in the acquisition of milch cattle. The contribution of institutional sources was 25.0 per cent and the non-institutional sources contributed 22.7 per cent. If we juxtapose this significant contribution of institutional sources in funding the acquisition of cattle with the previous finding of no contribution by institutional sources in cattle-shed construction, it shows the weakness of the milch cattle programme.

The institutional sources are an important source of funding at 42.2 per cent in acquiring sheep, goat and pigs. The contribution from the non-institutional sources was 29.5 per cent and own funds accounted for 28.3 per cent. The share of institutional sources in the case of Scheduled Caste households was 80.0 per cent, Scheduled Tribes 57.2 per cent and backward castes 18.3 per cent. The Caste-wise information regarding non-institutional sources was that, for
forward castes it was 38.8 per cent, backward castes 27.3 per cent, Scheduled Tribes 23.8 per cent and Scheduled Castes 10.0 per cent.

Own funding was an important source acquiring the bullocks accounting to 58.0 per cent (funds from the disposal of old bullocks 39.3 per cent; farm income 14.6 per cent; and sale of gold and other assets 4.1 per cent). Next in the order of importance are institutional sources (24.8 per cent) and non-institutional sources (17.2 per cent). Under the anti-poverty programmes (institutional source of funding), bullocks were given at subsidised prices to some of the Scheduled Caste and Scheduled Tribe households. The share of institutional sources in case of Scheduled Castes was 56.6 per cent, Scheduled Tribes 45.0 per cent, backward castes 24.9 per cent and forward castes 15.7 per cent.

Own funds are the main source (50.2 per cent) of funding in acquiring the bullock carts (earnings from the disposal of old bullock carts accounted for 33.5 per cent; farm income 11.8 per cent; and sale of gold and other assets 4.9 per cent). The institutional sources accounted for 28.2 per cent and non-institutional sources for 21.6 per cent.

The own funds are an important source that provided about 72.3 per cent of the expenditure in acquiring the household furniture. The rest 27.7 per cent was from non-institutional sources.
The share of institutional sources was zero in acquiring the durable household goods. Own funds accounted for 69.9 per cent. Non-institutional sources contributed the rest 30.1 per cent.

The share of institutional sources in funding the expenditure on education was zero. The share of non-institutional sources was 56.7 per cent. The share of own funds was 43.3 per cent (farm income 37.8 per cent; and asset disposal 5.5 per cent). The non-institutional sources contributed about 45.7 per cent and own funds accounted for 54.3 per cent in funding the expenditures involved in seeking coaching by rural youth to face competitive exams and in securing the job.

Own funds accounted for 76.9 per cent (farm income 67.0 per cent; and asset disposal 9.9 per cent) regarding expenditures on food, clothing and other domestic needs. The contribution of non-institutional sources was 22.3 per cent and the contribution of institutional sources was 0.8 per cent.

Own funds are an important source (62.4 per cent) of funding in meeting the expenditures on the celebration of marriages, death occasions and festivals. The non-institutional sources accounted for 37.6 per cent and the contribution of institutional sources was zero.

The contribution of non-institutional sources in meeting the expenditures in curing the major diseases was 30.5 per cent. The share of institutional sources was nil. The own funds are an important
source contributing 69.5 per cent (farm income 51.8 per cent; asset disposal 14.1 per cent; and sale of gold ornaments 3.6 per cent).

Out of our 180 sample households, 12 are rural artisans (6.67 per cent). Their total investment on their equipment and implements are to the tune of Rs.71,000. Out of this, institutional sources contributed for 56.4 per cent, own funds accounted for 19.7 per cent and the rest 23.9 per cent was funded by non-institutional sources (business men 12.7 per cent; money lenders 8.4 per cent; and others 2.8 per cent).

The investment in running the petty business (five households are involved here) together was Rs.1,82,000. Out of it, own funds accounted for 23.9 per cent, banks 40.1 per cent, money lenders 13.0 per cent and business men 23.0 per cent.

Out of 180 sample households, 48 have reported the savings. Eight Scheduled Caste and two Scheduled Tribe households have saved Rs.8000. Invariably all these savings are with self-help groups. Eighteen backward caste and 10 forward caste households saved a total of Rs.11,31,000 during the last five years. They used these savings in lending to others (39.3 per cent), purchase of gold ornaments (25.0 per cent), deposits in banks (22.3 per cent), saving in post offices and life insurance corporation (8.9 per cent) and in others (4.5 per cent).
Capital Market for Rural Development – Investment on Crop Related Economic Activities

For assessing the capital market for investments made on land acquisition, irrigation sources, farm houses, sericulture sheds, orchards, tractors a twenty year period (1980-99) was considered. For assessing the expenditure on land development and sericulture equipment five year period (1994-99) was considered. And for estimating the current investments on agriculture, only one year (1998-99) was considered.

As many as 83 households purchased lands during the period of our study (1980-99). On an average, Rs.76,975 was invested in acquiring land by each of the households. There was a considerable difference in the investment rates of various caste groups. As compared to average investment of Rs.76,975 per household, Scheduled Caste households invested about one-third and Scheduled Tribe households invested just about one-fifth of this average level. Forward caste households invested almost twice (Rs.1,22,129) the rate of investment per household. In the case of backward castes, the scenario is nearer to the average of all the caste groups at Rs.62,056. The contribution of various sources of funding in the acquisition of land is slightly differing between various caste groups. Irrespective of caste group, 'own funds' are the main source of funding. The share of own funds was higher at 43.0 per cent in the case of Scheduled Tribe
households and is least at 33.2 per cent among the backward caste households. The contribution of institutional sources in the acquisition of land asset was less at 15.4 per cent in the case of Scheduled Tribe households as compared to 21.7 per cent by Scheduled Caste households, 26.2 per cent by backward caste and 25.7 per cent by forward caste households. There bring no scope for institutional funding for the purchase of land, the above information shows the misuse of institutional loans in acquiring the lands.

In acquiring the lands, the share of own funds has declined to 31.0 per cent during the last quinquennium (1994-99) as compared to the first quinquennium (1980-84) share of 41.3 per cent. At the same time, the contribution of institutional sources has increased considerably. As compared to 19.6 per cent by the first quinquennium, it increased to 35.3 per cent during the last quinquennium. The contribution of non-institutional sources has continuously declined with passage of time. The contribution of farm income to own funds has declined considerably to 33.7 per cent during 1995-99 as compared to 41.3 per cent during 1980-84. The share of funds acquired by the disposal of moveable assets has increased marginally to 28.6 per cent during 1995-99 as compared to 23.3 per cent during 1980-84.

Own funds are the dominating source (39.8 per cent) of funding in well digging and in repair and deepening of existing wells. Institutional sources together contributed 29.9 per cent, (co-operatives
11.7 per cent; commercial banks 9.2 per cent; and government schemes 9.0 per cent). The rest 31.2 per cent came from non-institutional sources. The share of own funds was more among the forward caste households as compared to all others. The contribution of own sources by forward caste households also declined substantially from 52.7 per cent during 1980-84 to 42.7 per cent by 1995-99. Similar trend can be observed in the case of others too.

With regard to investment on abandoned and failed wells during the overall period, the share of own funds was 29.1 per cent, institutional sources contributed 48.4 per cent (government funding 13.4 per cent; commercial banks 18.6 per cent; and co-operatives 16.4 per cent) and non-institutional sources 22.5 per cent. As far as the changes over the twenty year period was concerned, a clear picture is observable. During the first quinquennium of our study, the contribution of own funds was 47.3 per cent, institutional sources contributed 24.5 per cent and non-institutional sources 28.2 per cent. By the last quinquennium, the share of own funds declined to 19.0 per cent and funds from institutional sources increased to 65.2 per cent and the share of non-institutional sources declined to 15.8 per cent. With regard to own funds, the share of farm income was 45.8 per cent. Next in the order of importance was asset disposal (33.8 per cent) followed by the sale of gold and other ornaments (14.8 per cent) during the 20 years period (1980-99).
During the overall period, own funding amounted to 44.9 per cent in the acquisition of oil engines/electric motors/submersible pumps. Commercial banks and cooperatives together contributed about 23.1 per cent. The contribution of non-institutional sources was 25.1 per cent (money lenders 9.8 per cent; business men 7.6 per cent; friends and relatives 3.2 per cent; landlords 2.8 per cent; and other minor sources 1.7 per cent). During the first three quinquinums i.e., from 1980 to 1994, the contribution from own funds remained more or less same at about 49.0 per cent. But this contribution declined substantially to 37.6 per cent by the last quinquinum of our study. The share of farm income in own funds declined from 57.4 per cent during the first quinquinum (1980-84) to 50.0 per cent by the last quinquinum (1995-99). The share of own funds through asset disposal increased from 25.1 per cent during 1980-84 to 34.7 per cent during 1995-99.

Regarding the source of funding in the investments on sericulture shed, farm house and motor shed, own funds were the main source of funding (35.8 per cent). The contribution of institutional sources was significantly higher at 43.4 per cent (government funding 13.5 per cent; commercial banks 16.8 per cent; and co-operatives 13.1 per cent). The contribution of own funds was lower in the case of Scheduled Caste and Scheduled Tribe households as compared to forward caste households. The scenario remained same
during the entire period of the study. With the passage of time, the own contributions for making the investments on the above items declined. The contribution of own funds was 48.7 per cent during the first quinquennial (1980-84) of our study. The same declined to 41.0 per cent by the next quinquennial (1985-89) and to 31.6 per cent by the third quinquennial (1990-94) and then to mere 23.3 per cent by the fourth quinquennial (1995-99). During the overall period of 20 years, in own funds, farm income was the main source of funding (49.1 per cent). Next in the order of importance are asset disposal (31.0 per cent), sale of gold and other ornaments (16.4 per cent) and other minor sources (3.5 per cent). The share of farm income in own funds has increased from 44.2 per cent during the first quinquennial to 57.8 per cent by the last quinquennial.

During the overall period, the contribution from own funds in raising the orchards was 27.4 per cent, institutional sources contributed 49.7 per cent (government support 13.7 per cent; commercial banks 17.9 per cent; and cooperatives 18.1 per cent) and the non-institutional sources accounted for 25.6 per cent. As far as the trends are concerned, during the first five year period (1980-84), own funds accounted for 49.0 per cent. This has declined to 30.0 per cent by the second five year period (1985-89), then to 19.4 per cent during the third five year period (1990-94) and to mere 14.3 per cent by the last five year period (1995-99). Against this, the share of institutional
sources was 23.5 per cent during the first five year period and the same increased to 39.5 per cent, 52.1 per cent and 67.3 per cent respectively during second, third, fourth five year periods of our study. The share of non-institutional sources remained more or less constant during the entire period of our study.

During the overall period, the share of own funds was 30.3 per cent, institutional sources accounted for 48.7 per cent and the rest 21.0 per cent was by non-institutional sources in the acquisition of tractors. The share of own funds was high at 62.1 per cent during the first quinquininum and gradually it fell to 18.0 per cent by the last quinquininum. Against this, the share of institutional sources was 18.9 per cent during the first quinquininum and it increased to 51.0 per cent by the last quinquininum. The contribution of non-institutional sources was 19.0 per cent during the first quinquininum and the same increased to 31.0 per cent by the last quinquininum. Within the own sources, the share of farm income was 57.4 per cent, asset disposal accounted to 27.5 per cent, sale of gold and other ornaments to 10.9 per cent and other minor sources to 4.2 per cent.

Own funds accounted for 56.0 per cent (farm income 48.0 per cent; and asset disposal 8.0 per cent) in the purchase of equipment necessary for sericulture practising. The institutional sources accounted for 24.0 per cent and the share of non-institutional sources recorded 20.0 per cent.
Own funds are important source accounting for 63.1 per cent (farm income 52.8 per cent; and asset disposal 10.3 per cent) in meeting the expenditures on seeds, fertilizers and pesticides necessary for raising the current crop. The share of non-institutional sources was 19.6 per cent (money lenders 10.3 per cent; business men 6.0 per cent; landlords 2.3 per cent; and others 1.0 per cent). The institutional sources accounted for mere 17.3 per cent. Interestingly, the share of institutional sources was more in the case of Scheduled Castes (30.4 per cent) and Scheduled Tribes (33.3 per cent) as compared to either backward castes (10.0 per cent) or forward castes (19.7 per cent).

Suggestions

Based on the findings of the study, the following suggestions are made.

1. A rural housing corporation needs to be established to meet the funding requirements of rural housing irrespective of caste.
2. In the wake of globalisation and expected demand for artisan products, a funding institution may be constituted to help increase investments by artisans.
3. National Rural Capital Market for raising and managing orchards may be established by National Bank for Agriculture and Rural Development (NABARD).
4. The siphoning of rural savings to urban areas may be stopped forthwith.

5. Facilities of education loans adopted by commercial banks may be liberally extended to rural areas.

6. A single window for all the capital investments in rural areas is bound to help bring in more capital to rural areas.