AgEcon SEARCH
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

AgEcon Search
http://ageconsearch.umn.edu
aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

Vol XXXIII
No. 3

ISSN 0019-5014

CONFERENCE
NUMBER

OCTOBER-
DECEMBER
1978

INDIAN JOURNAL OF AGRICULTURAL ECONOMICS

INDIAN SOCIETY OF
AGRICULTURAL ECONOMICS,
BOMBAY

more credit even at the existing high rates of interest paid by these marginal farmers. The fact that these farmers are paying and can pay high rates of interest on loans if they can be made available clearly indicates the constraints on the supply side of credit. Given favourable input and output prices, their demand potential for credit is likely to be very much higher. If these demands are to be met, there is a strong case for strengthening the infrastructure for the supply of credit. Even if this will mean an increase in the supply price of credit from the present levels of lending institutions, still it will be worthwhile for the farmers to borrow. The results of this study clearly indicate that steps to bring down interest rates on loans to the marginal farmers cannot be of much help. What is far more important is increasing the available supply of credit.

NON-FARM BUSINESS OF CULTIVATORS AND INSTITUTIONAL FINANCE

V. A. Avadhani*

The object of this paper is to examine the extent of involvement of cultivators in non-farm activity and the availability of institutional finance for this. Section I offers a brief introduction. In section II, the overall picture of non-farm activity of cultivators is presented, followed by an analysis of non-farm business by category of cultivator households in section III. Section IV sets out the factors influencing non-farm activity and section V examines the availability of institutional finance for non-farm activity. Summary and conclusions are presented in section VI.

I

INTRODUCTION

Non-farm business is defined by the All-India Debt and Investment Survey (AIDIS) as to comprise all economic activities covering manufacturing and repairing services, mining and quarrying, trade, transport, professions and services. The survey data of non-farm business were collected under the following heads: industries, transport, trade, profession and services.[1] Industry includes all manufacturing activities in relation to food-stuff, agricultural produce and others performed either manually or by machines. Repair work by service workshops, eating establishments, tea shops, etc., was also classified as industry. Mining, quarrying, generation of electricity and allied activities are included under this head. Transport is defined as to include all

* The author has benefited from discussions with Dr. N. A. Mujumdar and from the statistical assistance from Sarvashri S. N. Kolte, R. K. Srivastava, R. V. Kedare and Kum. K. Rajagopalan.

1. The data for this paper are drawn heavily from the AIDIS and All-India Rural Debt and Investment Survey (AIRDIS).

animal-driven, power-driven vehicles and carts drawn by men, etc. However, it does not include renting out transport vehicles or carts. Trade includes the business of purchasing and selling as intermediary between producers and consumers without transforming them in any way. Profession and services relate to those working for a wage or salary.

Importance of Non-farm Activities

The occupational pattern of rural households showed that out of 77 million rural households as at the end of June 1971, nearly 72 per cent were cultivators, and the remaining were agricultural labourers, artisans and other non-cultivators. A cultivator was defined as a household having an operational holding of 0.005 acre and above irrespective of its ownership, and whose main source of income is from cultivation of land.

In a country like India with a preponderance of small sized holdings and small farmers, the importance of supplementing the incomes of cultivators and providing supplementary employment needs hardly any emphasis. There is a high degree of disguised employment and under-employment in the agricultural sector. The cultivators are free during off-season periods of the year when they can be profitably employed in non-farm activities, which would also supplement their meagre incomes. Besides, agriculture being highly uncertain in its returns, it would be desirable to diversify their activities into non-farm so that the cultivators have some assured income for the year. It would, therefore, be worthwhile to examine the extent to which the cultivators have diversified into non-farm activities over the past two decades.

II

OVERALL PICTURE

The overall picture of the involvement of cultivators in non-farm activity as it emerges from the AIDIS can be set out in terms of the following indicators: (*a*) Non-farm assets as a percentage of total assets; (*b*) Non-farm debt as a percentage of total debt; (*c*) Borrowings for non-farm business as a percentage of total borrowings; (*d*) Non-farm capital expenditure as a percentage of total capital expenditure; (*e*) Non-farm capital formation as a percentage of total capital formation; and (*f*) Receipts from non-farm business as a percentage of total receipts. These are presented in Table I.

Compared to 1961, the proportion of households reporting, which is an indicator of the extent of involvement, did not show a clear direction of change in 1971 as reflected under the above heads of indicators. The proportion had increased in respect of (*a*) capital expenditure and (*b*) debt outstanding for capital expenditure while it declined for (*a*) equipment for non-farm business, (*b*) debt outstanding and borrowings for current expenditure and (*c*) borrowings for capital expenditure. The average amount per household in respect of assets, capital expenditure, capital formation, debt and

TABLE I—NON-FARM ACTIVITIES—ALL-INDIA: CULTIVATORS

Non-farm	1961			1971		
	A	B	C	A	B	C
I. Assets						
Total	—	—	—	—	52·2	0·4
(*i*) Buildings	N.A.	N.A.	N.A.	1·6	30·0	0·2
(*ii*) Equipment and machinery ..	19·2	16·0	0·2	6·5	22·2	0·2
II. Debt outstanding at the end of June						
Total	—	16·8	3·5	—	25·2	4·3
(*i*) Capital expenditure	0·7	6·8	1·4	1·0	18·6	3·2
(*ii*) Current expenditure	1·3	10·0	2·1	0·5	6·6	1·1
III. Borrowings during the year						
Total	—	13·8	6·7	—	5·7	2·8
(*i*) Capital expenditure	0·4	2·4	1·2	0·3	2·9	1·4
(*ii*) Current expenditure	1·0	11·4	5·5	0·3	2·8	1·4
IV. Capital expenditure	5·5	6·5	3·2	6·0	16·8	5·2
V. Capital formation	1·9	4·4	6·9	1·9	10·9	9·3
VI. Net receipts*	66·2	273·6	39·7	N.A.	518·1	43·8

A=Proportion of households reporting (per cent).
B=Average per household (Rs.)
C=Percentage share of non-farm activity in the total activity.
* Net Receipts = Gross receipts minus expenditure on raw material, fuel, salaries, wages, rent and hire charges, etc.

borrowings for capital expenditure and receipts, however, showed an increase over the decade.

More specifically, the percentage share of non-farm activity in the total activity increased significantly in respect of capital expenditure, capital formation and net receipts. While there was an increase in the share of debt and borrowings for capital expenditure, the share of debt and borrowings for current expenditure had declined. The overall picture regarding the involvement of cultivators in the non-farm activity reveals an ambivalent picture; although the proportion of households involved in this activity did not show much change, it would appear that the cultivator households might have expanded their non-farm activity by 1971 as compared to 1961, judged by the rise in the share of non-farm capital expenditure and capital formation.

Debt-Asset Ratio

The average assets per household used in non-farm activity were very meagre at Rs. 52 while the average debt outstanding for non-farm business

was around Rs. 25. The debt-asset ratio for non-farm activities was thus 0.5 while it was 4.1 for all activities of cultivators; the debt-asset ratio for all activities in 1962 was 7.2. The proportion of debt for non-farm activity to the total increased from 3.5 per cent to 4.3 per cent over the decade.

Capital-Output Ratio

It would be interesting to compare the capital-output ratios for farm and non-farm business from the data revealed by the AIDIS. It is seen from Table II that the capital-output ratios in agriculture, farm and non-farm together had declined over the decade. While it had increased marginally for farm business, it had declined significantly in respect of non-farm business. The decline in the capital-output ratio in non-farm business may be attributed firstly to the greater concentration of efforts particularly in land acquisition and development or modernization and mechanization of farm activity and secondly, to the erosion in the real asset values of small and medium farmers who are the major participants in non-farm activity. Table II compares the findings in this respect with those of similar estimates of others and this shows the comparability of our estimates with those of others. Compared with the farm activity, capital required in non-farm business for every unit of output was lower by nearly four to eight times.

TABLE II—AVERAGE CAPITAL-OUTPUT RATIO: AGRICULTURE AND ALLIED ACTIVITIES

Source	1961	1971
1. RBI, AIDIS/AIRDIS data (farm and non-farm cultivators)*	1·725	1·681
Farm business	1·792	1·857
Non-farm business	0·616	0·236
2. Uma Datta Roy Chaudhary and V. V. Divatia**		
At current prices	1·13	1·15
At constant prices	1·13	1·28
3. Tara Shukla†	1·086 (0·9075)‡	—

* Excluding land and vacant house-sites and durable household assets among capital stock and excluding receipts due to professions, services and miscellaneous items in the value of output (gross produce adjusted for cognizable input items).

** "Measurement of Distributions of Capital Stock in India", presented by the authors at the 14th Conference of International Association for Research in Income and Wealth, 1975.

† Capital Formation in Indian Agriculture, Vora & Co., Publishers Pvt. Ltd., Bombay-2, 1965, p.95.

‡ The figure in brackets relates to excluding land while the figure 1·086 relates to that comparable to a similar estimate for 1950-51 of Mukherjee and Sastry at 1·07 (net capital stock and net output). Vide M. Mukherjee and N. S. R. Sastry, "An Estimate of the Tangible Wealth in India", in Reymond Goldsmith and Christopher Saunders (Eds.): "Income and Wealth Series VIII — The Measurement of National Wealth, International Association for Research in Income and Wealth, 1959.

III

CATEGORIES OF CULTIVATORS

The categories of farmers for the purpose of our discussion are based on asset holdings and may be set out as follows: (*i*) marginal farmers with assets upto Rs. 2,500, (*ii*) small farmers with assets between Rs. 2,500—Rs. 5,000, (*iii*) medium farmers with assets between Rs. 5,000—Rs. 10,000 and (*iv*) large farmers with assets above Rs. 10,000. It is to be admitted as a major limitation that asset groups as between two periods of time cannot be compared due to changes in the composition of these groups and due to inflation which erodes the real value of the assets over time. But it is hoped that the broad conclusions regarding the characteristics of those in the groups would not be vitiated by these limitations.

Non-farm Debt

Non-farm debt outstanding with respect to marginal farmers was Rs. 7 per household while it was Rs. 48 per household for large farmers in 1971. Over the decade, while the share of outstanding debt for current expenditure of small farmers and marginal farmers increased, there was a slight fall in the case of large farmers as well as medium farmers. Reverse trends are generally noticed in respect of debt for capital expenditure. The implication is that perhaps marginal and small farmers have had to borrow primarily for consumption (Table III).

TABLE III—NON-FARM DEBT OF CULTIVATORS

Category	Debt for capital expenditure in non-farm business						Debt for current expenditure in non-farm business					
	1962			1971			1962			1971		
	A	B	C	A	B	C	A	B	C	A	B	C
1. Marginal farmers ..	0·4	2·4	5·7	0·7	4·5	4·5	0·9	1·9	3·1	0·5	2·1	5·7
2. Small farmers	0·7	2·0	7·4	0·9	6·1	6·0	1·3	3·1	7·7	0·5	3·4	9·2
3. Medium farmers ..	0·7	2·9	10·0	1·0	10·5	13·0	1·2	5·1	11·9	0·5	3·2	11·1
4. Large farmers	0·8	14·5	76·9	1·2	35·4	76·5	1·6	21·5	77·3	0·6	12·2	74·0
All cultivator households ..	0·7	6·8	100·0	1·0	18·6	100·0	1·3	10·0	100·0	0·5	6·6	100·0

A = Proportion of households reporting (per cent).
B = Average per household (Rs.).
C = Percentage share of outstanding debt of each category of cultivator households in the total.

Non-farm Borrowings

The proportion of households reporting borrowings was uniformly lower in 1971 than in 1961 for all classes of farmers. While in the case of capital expenditure in non-farm business the average amount borrowed per household was lower only in the case of large farmers, the same was uniformly and substantially lower for all categories of farmers in respect of current expenditure in non-farm business (Table IV). The fact that borrowings for current ex-

TABLE IV—BORROWINGS FOR NON-FARM BUSINESS BY CULTIVATOR HOUSEHOLDS: 1961-62 AND 1971-72

Category	Capital expenditure in non-farm business						Current expenditure in non-farm business					
	1961-62			1971-72			1961-62			1971-72		
	A	B	C	A	B	C	A	B	C	A	B	C
1. Marginal farmers	0·2	0·1	0·4	0·2	0·5	3·2	0·7	1·7	2·4	0·2	0·8	5·0
2. Small farmers	0·4	0·7	7·2	0·2	1·1	7·1	0·9	2·4	5·2	0·3	2·0	13·0
3. Medium farmers	0·4	1·0	9·7	0·4	1·8	14·4	0·9	4·8	9·8	0·4	1·7	13·9
4. Large farmers	0·6	5·6	82·7	0·4	5·4	75·3	1·4	26·3	82·6	0·4	4·8	68·1
All cultivator households	0·4	2·4	100·0	0·3	2·9	100·0	1·0	11·4	100·0	0·3	2·8	100·0

A = Proportion of households reporting (per cent).
B = Average per household (Rs.).
C = Percentage share of borrowings by each category of cultivators in the total.

penditure in non-farm business declined significantly over the decade for all categories of farmers reflects on their reduced reliance on external finance.

Involvement of Marginal and Small Farmers

As against 37 per cent of the cultivator households falling in the category of marginal and small farmers, their share in the receipts from non-farm business was 44 per cent, but their share in capital expenditure, capital formation, borrowings and debt was smaller, as shown in Table V.

TABLE V—INVOLVEMENT OF MARGINAL AND SMALL FARMERS IN NON-FARM ACTIVITY

Non-farm	Total non-farm (crore Rs.)	Percentage share of marginal and small farmers in total non-farm under each head
1. Gross receipts during 1971-72	3,296	43·7
2. Capital expenditure during 1971-72	95	6·9
3. Capital formation during 1971-72	47	0·2
4. Total borrowings during 1971-72	32	14·1
5. Total outstanding debt as at the end of June 1971	141	11·6

In terms of average per household and the share of non-farm activity to total activity, the data on gross receipts and expenditure show that the dependence of marginal and small farmers in non-farm business was larger than that of medium and large farmer (Table VI). Although the average debt and average borrowings for non-farm business are higher for medium and large farmers, their respective proportions in the total activity were about the same or lower than for small and marginal farmers. The large and medium farmers being more wealthy in terms of size of assets and capital

formation, their average value of assets and their share in total assets and total investment were relatively higher than those of small and marginal farmers; the only exception was, however, the share of non-farm equipments to total equipments in respect of small and marginal farmers, which was higher than the respective shares for medium and large farmers. The conclusion that emerges is, therefore, that although the small and marginal farmers are relatively poorer in terms of their size of assets and capital formation in non-farm business, their involvement in non-farm activity is relatively higher and they depend on inexpensive small tools and equipments for their non-farm activity.

TABLE VI—NON-FARM ACTIVITY—CATEGORY OF CULTIVATORS: 1971-72

Non-farm	Marginal farmers		Small farmers		Medium farmers		Large farmers	
	A	B	A	B	A	B	A	B
1. Buildings	1·1	0·3	3·7	0·4	7·9	0·5	67·8	1·5
2. Equipments	4·8	15·4	7·7	10·5	9·4	6·4	44·2	5·2
3. Capital expenditure	2·3	3·5	4·1	3·3	9·1	4·8	34·1	5·5
4. Capital formation ..	1·3	7·5	2·0	7·3	5·8	10·6	22·6	9·2
5. Borrowings	1·3	2·0	3·1	3·2	3·5	2·4	10·3	2·9
6. Debt	6·6	3·7	9·5	3·3	13·7	3·4	47·6	4·7
7. Total expenditure ..	26·5	8·6	42·7	8·9	54·7	7·6	139·1	7·0
8. Gross receipts ..	768·6	83·3	628·5	71·6	516·7	57·7	527·2	29·2

A = Average per household (Rs.).
B = Percentage share of non-farm activity in the total activity.

IV

FACTORS INFLUENCING NON-FARM ACTIVITY

Capital Account and Current Account Indicators

The data on two indicators of non-farm activity, namely, debt-asset ratio (capital account) and income-expenditure ratio (current account) are set out Statewise in Table VII. It will be seen that the States can be classified into three categories on the basis of debt-asset and income-expenditure ratios: (*i*) States with a high debt-asset ratio and a high income-expenditure ratio, indicating a high level of both capital account activity and current activity. Examples are Andhra Pradesh, Rajasthan, Tamil Nadu, Madhya Pradesh, Orissa, Jammu & Kashmir and Assam. The farmers in these States depend on external funds relatively more than others for the high level of non-farm activity. (*ii*) States with a low debt-asset ratio accompanied by a low income expenditure ratio reflecting a low level of activity on both capital account and current account of non-farm business. Examples are Gujarat, Maharashtra, Karnataka, Bihar and Himachal Pradesh, where the non-farm

TABLE VII—DEBT/ASSETS AND INCOME/EXPENDITURE RATIOS IN NON-FARM BUSINESS: 1971-72

State	Debt-asset ratio (as on 30-6-1971)	Income-expenditure ratio (during 1971-72)*
I. Category		
1. Andhra Pradesh	1·2	48·9
2. Rajasthan	1·2	36·9
3. Tamil Nadu	1·1	39·2
4. Madhya Pradesh	0 8	48·8
5. Orissa	0·8	50·0
6. Jammu & Kashmir	0·8	62·3
7. Assam	0·7	31·0
II. Category		
8. Gujarat	0·6	23·7
9. Maharashtra	0·5	18·5
10. Bihar	0·1	25·1
11. Himachal Pradesh	0·2	12·0
12. Karnataka	0·3	12·0
III. Category		
13. Punjab	0·9	3·7
14. Haryana	0·7	14·0
15. Uttar Pradesh	0·4	36·1
16. Kerala	0·4	51·0
17. West Bengal	0·2	57·8
All-India	0·5	30·9

* Incomes are compiled from the data on receipts or value of produce, collected by the AIDIS, after adjusting for input items such as expenditure on manures, seeds, etc., wages, rent, etc., merchandise purchased for trade, etc.

activity was at a lower gear involving low capital investments. (*iii*) The third category of States are exceptions to the above trends such as Punjab, Haryana, Uttar Pradesh, Kerala and West Bengal. In Uttar Pradesh, Kerala and West Bengal, the debt-asset ratio was low while the income-expenditure ratio was high. The reverse was true in the case of Punjab and Haryana, compared with the all-India average, due to the predominance of trade and transport among their activities involving high capital investment. It appears that the percentage of receipts from industry and trade to the total non-farm receipt is relatively high in West Bengal, Kerala, Bihar and Himachal Pradesh. The bulk of this activity must, therefore, relate to the petty retail trade, shops, eating establishments, etc., involving low capital investment.

Factors Influencing Non-farm Activity

In Table VIII data are presented Statewise on various indicators of non-farm activities, namely, assets, debt, capital expenditure, capital formation, total receipts and total borrowings. Table IX attempts to explain these indicators through various factors influencing them. Broadly, some States such as West Bengal, Himachal Pradesh, Kerala, Bihar, Orissa, Assam and Tamil Nadu had a higher proportion of non-farm component in their debt, assets, capital expenditure, capital formation and total receipts. Of these, Assam and Orissa had a smaller average receipt, average assets, capital

TABLE VIII—SOME NON-FARM INDICATORS

State	Percentage of non-farm receipts to total receipts	Percentage of non-farm assets to total assets	Percentage of non-farm debt to total debt	Percentage of non-farm capital expenditure to total capital expenditure	Percentage of non-farm capital formation to total capital formation	Percentage of non-farm borrowings to total borrowings
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1. Punjab ..	7·9 (340·0)	0·1 (53·8)	2·8 (50·0)	4·4 (81·1)	7·2 (59·2)	2·0 (24·8)
2. Haryana ..	12·5 (283·8)	0·1 (50·9)	3·2 (37·9)	1·8 (19·0)	2·6 (12·1)	1·4 (9·7)
3. Gujarat ..	21·3 (375·2)	0·2 (31·0)	2·4 (29·8)	2·9 (15·1)	4·6 (11·9)	0·8 (2·3)
4. Karnataka ..	34·3 (460·8)	0·6 (79·0)	2·5 (23·4)	6·3 (32·2)	13·7 (22·7)	1·6 (4·9)
5. Rajasthan ..	32·6 (322·3)	0·2 (27·6)	3·7 (34·0)	1·8 (8·0)	3·4 (5·6)	2·0 (8·0)
6. Uttar Pradesh ..	38·4 (386·7)	0·2 (35·5)	3·5 (12·9)	3·0 (9·8)	4·2 (5·4)	1·9 (3·2)
7. Andhra Pradesh	43·2 (549·8)	0·2 (27·3)	3·7 (32·9)	6·0 (10·9)	14·4 (6·9)	3·5 (7·2)
8. Maharashtra ..	43·7 (473·0)	0·4 (64·6)	3·8 (30·8)	7·1 (23·2)	13·5 (16·4)	4·3 (10·8)
9. Assam ..	41·8 (488·7)	0·4 (38·7)	13·5 (26·9)	6·9 (15·1)	12·6 (6·7)	8·3 (2·6)
10. Tamil Nadu ..	47·1 (609·8)	0·4 (45·9)	4·6 (51·1)	5·1 (13·9)	8·9 (9·7)	1·9 (5·6)
11. Madhya Pradesh	53·0 (522·4)	0·2 (21·6)	3·9 (17·6)	3·2 (10·4)	6·9 (6·9)	3·7 (7·4)
12. Jammu & Kashmir	56·1 (579·7)	0·6 (88·3)	18·4 (68·0)	3·0 (8·3)	4·1 (3·6)	17·6 (31·4)
13. Bihar ..	64·6 (755·5)	0·4 (63·2)	2·0 (6·7)	14·5 (25·6)	29·7 (15·2)	1·4 (0·9)
14. West Bengal ..	63·4 (881·5)	0·6 (64·3)	5·0 (12·3)	5·4 (12·7)	10·9 (7·1)	5·3 (6·7)
15. Himachal Pradesh	67·1 (515·8)	1·4 (334·8)	11·1 (65·3)	7·6 (39·3)	11·5 (35·5)	3·0 (7·0)
16. Orissa ..	73·2 (508·0)	0·3 (18·1)	7·5 (14·0)	7·0 (9·5)	16·6 (16·0)	1·7 (1·0)
17. Kerala ..	71·5 (1,660·3)	1·4 (181·9)	17·6 (69·9)	10·2 (26·9)	18·9 (20·2)	8·7 (12·4)
All-India ..	46·6 (581·5)	0·4 (52·2)	4·3 (25·2)	5·2 (16·8)	9·3 (10·9)	2·8 (5·7)

Note:—Figures in brackets indicate average per household (Rs.) under each head.

TABLE IX—FACTORS INFLUENCING NON-FARM ACTIVITIES—STATEWISE: CULTIVATORS: 1971

	State	Average size of operational holding per cultivator household (acres)	Percentage of cultivator households owning less than 2.5 acres	Per capita income from agriculture at factor cost at current prices (Rs.)	Percentage of total dry land area to net area sown	Net area irrigated as proportion of net area sown
1.	Punjab	9·8	29·0	855	40·7	71·3
2.	Haryana	9·4	26·5	686	66·8	43·0
3.	Gujarat	8·8	27·3	498	85·6	12·8
4.	Karnataka	7·9	32·9	456	80·1	11·1
5.	Rajasthan	11·9	22·3	381	86·7	14·0
6.	Uttar Pradesh	3·8	56·3	455*	60·1	41·5
7.	Andhra Pradesh ..	5·7	49·7	428	73·5	28·2
8.	Maharashtra	9·4	26·4	329	81·6	7·8
9.	Assam	3·2	54·5	328	—	25·7
10.	Tamil Nadu	3·3	63·8	383	46·7	42·0
11.	Madhya Pradesh ..	8·6	29·9	389	39·9	8·1
12.	Jammu & Kashmir ..	3·0	55·9	402	32·3	39·5
13.	Bihar	3·1	64·8	233**	10·2	25·6
14.	West Bengal	2·8	68·1	459	—	26·9
15.	Himachal Pradesh ..	3·7	57·6	364	77·9	16·7
16.	Orissa	3·4	56·0	361	—	18·8
17.	Kerala	1·3	87·5	345	—	19·8
	All-India	1·3	50·2	392	55·8	22·2

Source for per capita income from agriculture at factor cost: *Reserve Bank of India Bulletin*, Vol. XXXII, No. 4, April 1978.

* 1972-73.

** 1969-70.

expenditure and capital formation per household. In all these seven States, operational holdings and income were low as compared with the national average and the percentage of cultivator households owning less than 2.5 acres was high. It would appear that the small and marginal farmers in these States have relied more on non-farm activities to supplement their incomes. In Bihar and Orissa, however, the average debt and borrowings per household were low, indicating their low capacity to borrow due to low level of assets.

In the States of Rajasthan, Gujarat, Haryana, Punjab and Uttar Pradesh, all the above indicators have been low compared with the all-India averages

reflecting the fact that the non-farm activities of cultivators in these States were at a low ebb although non-farm operations were pursued in some measure. Their debt as well as borrowings was low for the purpose of non-farm business. In Punjab, Haryana and Gujarat, the proportion of capital expenditure and capital formation in non-farm business was, however, high. Their involvement in non-farm activity appears to be low, due to high average size of operational holdings per cultivator (except in the case of Uttar Pradesh) and high per capita incomes from agriculture; the percentage of poor cultivator households depending on non-farm business with less than 2.5 acres was also low in these States.

There is a third category of States comprising Madhya Pradesh and Jammu & Kashmir, whose non-farm receipts are high but whose investments in non-farm business and per capita agricultural incomes are low. The type of non-farm activity they engage in appears to be trade and services which do not require high capital investments. In the case of Jammu & Kashmir, however, the non-farm assets, debt, borrowings and receipts from non-farm business were relatively higher. Fourthly, there are States like Karnataka, Maharashtra and Andhra Pradesh where receipts are low but the asset and investment levels are high, reflecting their higher capital expenditure and capital formation but lower level of current operation in non-farm activities relative to farm activity. It would imply that in these States, the non-farm activities involving heavy capital outlays such as industry, transport, etc., are being pursued to a greater extent.

It is found that in the States where assets formation and investment generation in non-farm business are higher, their share in debt and borrowings is also relatively high. In the States of Tamil Nadu and Bihar where their assets formation and investment generation are low, their borrowings are also low. There appears to be some relation between borrowings during the period and the debt outstanding at the beginning of the period, which in turn might be a function of the assets. The regression of borrowings[2] on assets, debt, investment and income of rural households for the cross-section data showed that borrowings are significantly related to outstanding debt, indicating their need rather than capacity to borrow as influencing borrowings. The equation fitted in was:

$$B = 47.03 - 0.021\ Y + 0.140\ E + 0.196\ D - 0.006\ C + 0.294\ I$$

't' values (0.0281) (0.340) (0.394) (2.581) (—0.696) (0.617)

$R^2 = 0.877$. D.W. $= 2.038$.

where

B = borrowing during the period (for all activities),
D = debt outstanding at the beginning of the period,
Y = gross income,
C = capital stock,
E = current expenditure, and
I = capital expenditure.

2. These data relate to all farm and non-farm activities of cultivators.

Only debt proved to be a significant variable while others were not significantly related to borrowings. 'C' and 'Y' had however the desired negative sign.

V

INSTITUTIONAL FINANCE FOR NON-FARM BUSINESS

The institutional debt of cultivators stood at 32 per cent of total debt as at the end of June 1971. The major institutions which granted the loans were co-operative societies (22 per cent), Government (7 per cent) and commercial banks (2.4 per cent). The bulk of non-institutional credit, however, continued to be provided by agricultural and professional moneylenders. The debt for non-farm purposes constituted 3.5 per cent in 1962 and 4.3 per cent in 1971. In this paper attention is focused only on the institutional finance for non-farm activities.

The data on institutional finance purposewise are not available for 1971-72. However, the data for 1951-52 and 1961-62 are presented with breakdown of institutional finance (outstanding debt) purposewise and agencywise. These are only crude indicators of the trends and are shown in percentage in view of the limitations of data arising out of lack of comparability over such time horizons and differences in the coverage of the surveys. Agencywise the non-farm debt by Government as a percentage of the total Government finance for all purposes was 0.34 in 1951-52 and rose to 2.2 in 1961-62 (Table X). The non-farm debt of the Government as a proportion of the total non-farm debt from all agencies in 1951-52 was 0.5 per cent which increased to 4.4 per cent by 1961-62. The share of co-operatives was surpri-

TABLE X—NON-FARM DEBT OF CULTIVATOR HOUSEHOLDS—ALL-INDIA

(per cent)

Credit agencies	1951-52		1961-62		1971-72†	
	Share of each agency to the total debt for non-farm business of all agencies*	Share of non-farm debt to the total debt for each agency*	Share of each agency to the total debt for non-farm business of all agencies	Share of non-farm debt to the total debt for each agency	Total debt (as on June 30, 1971)	Total borrowings (during 1971-72)
1. Government ..	0·5	0·34	4·4	2·2	7·1	3·2
2. Co-operatives ..	0·3	0·30	1·7	0·5	22·0	16·7
3. Commercial banks			0·9	10·0	2·4	1·9

† The data classified according to the credit agency and purpose are not available for 1971-72. The data presented relate to all activities.

* Based on Intensive Enquiry data of 1951-52 Survey.

singly meagre until 1961-62. The co-operatives and commercial banks together provided only 0.3 per cent of the total non-farm debt from all agencies in 1951-52, which rose to 2.6 per cent in 1961-62. The commercial banks' financing of non-farm activities was in fact larger in proportionate terms

than the co-operatives and Government in 1961-62. Of the total advances by the commercial banks for all purposes, the non-farm debt constituted about 10 per cent in 1961-62. These data confirm that the institutional finance for non-farm business was very insignificant and neglected by all institutional agencies.

Government Finance

Of the three institutional agencies, the largest amount seems to have been provided by the co-operatives, followed by Government and commercial banks. The break-downs of Government loans into farm and non-farm are not available apart from the AIDIS data. These loans are granted to cultivators by the State Governments as *taccavi* loans. The Governments have been more recently channelling their assistance through the co-operatives. Over the decade the amount had grown from Rs. 34 crores in 1961 to Rs. 99 crores in 1971—a three-fold rise.[3] The States which showed a substantial rise over the decade are Bihar, Uttar Pradesh, West Bengal and Tamil Nadu.

Co-operative and Commercial Bank Finance

The data on co-operative credit and commercial bank credit are published by the Reserve Bank and throw some light on the purposewise break-downs. The loans by primary co-operative societies (both agricultural and non-agricultural) for non-farm business, industry and trade are presented in Table XI.

TABLE XI—LOANS BY PRIMARY (AGRICULTURAL AND NON-AGRICULTURAL) SOCIETIES

(*lakh Rs.*)

State	Loans by primary agricultural and non-agricultural societies†			
	During the year 1961-62	During the year 1971-72	During the year 1975-76	During the year 1976-77
1. Andhra Pradesh	14·0	8·5	89·6	144·9
2. Assam	1·2	328·7	—	256·7
3. Bihar	—	0·4	—	*
4. Gujarat	44·2	54·1	9,086·4	13,463·3
5. Haryana	—	0·4	—	29·2
6. Himachal Pradesh	0·2	3·5	12·6	37·6
7. Jammu & Kashmir	—	—	—	0·8
8. Karnataka	217·5	22·2	962·0	2,158·7
9. Kerala	24·3	45·2	150·4	178·3
10. Madhya Pradesh	4·0	4·8	51·5	12·0
11. Maharashtra	256·9	1,258·3	6,744·2	8,569·4
12. Orissa	2·0	—	3·3	4·1
13. Punjab	31·5	3·4	3·3	—
14. Rajasthan	*	0·3	37·8	34·6
15. Tamil Nadu	47·2	79·0	697·7	667·6
16. Uttar Pradesh	13·2	0·1	—	50·0
17. West Bengal	0·9	15·1	22·7	60·5
All-India	660·0	1,836·2	18,087·7	25,667·6

† Identifiable non-farm purpose—industrial loans, trade and commerce.
* Negligible.
Source: Statistical Statements Relating to the Co-operative Movement in India, Reserve Bank of India, Bombay.

3. Based on State Government Budgets.

There was a three-fold rise of non-farm advances over the decade 1961-71, but more marked was the rise in the next quinquennium of 1971-76 particularly in Gujarat, Karnataka, Maharashtra and Tamil Nadu. Such advances rose from Rs. 18 crores in 1971-72 to Rs. 257 crores in 1976-77—a rise of about 15 times. As a percentage of total advances they rose from 2 to 12 per cent over the period 1971-76.

In the case of commercial banks, rural credit outstanding by the commercial banks based on BSR data are presented in Table XII. The data relate to advances in the rural areas but the advances to the industry do not refer to the village—small and cottage—industries alone, as some of the bigger, medium and large industries are also located in the rural areas. As such, the finance for industry is not really finance to rural industries, or for non-farm business alone. The finance given to trade and transport in the rural areas could be considered as rural non-farm finance. Commercial banks' advances to the rural sector have grown substantially since nationalisation of banks in 1969. Bank advances outstanding against industry, trade, transport and services (non-farm activities) rose from Rs. 30 crores in 1969 to Rs. 255 crores by 1975 (estimates based on BSR data and not shown in Table XII). Leaving aside the data on industry, outstanding advances for trade, transport and services in the rural sector indicate a rise of nearly 10 times in the amount. Admittedly, all these advances may not necessarily be for the cultivators with which we are concerned in the present paper.

TABLE XII—RURAL ADVANCES BY COMMERCIAL BANKS (OUTSTANDING)

(lakhs Rs.)

Category	At end of June 1973	At end of June 1975
Direct agriculture	7,760	16,100
Indirect agriculture	490	1,550
Allied activities	590	1,390
Plantations	430	700
Industry (including mining)	12,970	18,810
Trade (including retail trade)	2,280	3,430
Transport	1,020	2,250
Services	590	1,120
Personal loans	1,660	3,110
Others	3,020	5,150
Total	30,800	53,600

Source: Based on BSR data, Report on Currency and Finance for the Years 1973-74 and 1975-76, Reserve Bank of India.

A marked rise in such advances for non-farm activity has taken place during the seventies. The position in 1971-72 as revealed by the Survey data has, therefore, undergone a sea-change particularly in respect of advances by the commercial banks and co-operative banks. The non-farm finance provided by the commercial banks and co-operative banks showed a rise of about 10 times since 1970. The analysis of institutional finance for non-farm activities based on Survey data of 1971-72 has therefore to be modified substantially by later data.

VI

SUMMARY AND CONCLUSIONS

Judged by the various indicators of non-farm activity of cultivators, like non-farm assets, debt, borrowings, capital expenditure and receipts, a clear picture did not emerge on the growth of non-farm activity during the past decade. It would, however, appear that the cultivator households engaged in non-farm business constitute a small proportion of the total cultivators and they might have expanded their non-farm activity over the decade.

However, there was no significant growth of debt and asset formation in non-farm business. The debt-assets ratio for non-farm activities was as low as 0.5 per cent as against 4.1 per cent for all activities, indicating a lower reliance on external finance for non-farm activity. Similarly, the capital-output ratio for non-farm activity was low at 0.236 as against 1.85 for farm activities. In fact, compared with 1961, there was a decline in capital-output ratio for non-farm business which is very disquieting in view of the increasing capital formation in rest of the economy.

Among the various categories of cultivators, the marginal and small farmers with assets upto Rs. 5,000 appear to be more dependent on non-farm activity as compared with the medium and large farmers, but their share in capital expenditure and capital formation, borrowings and debt for non-farm activity was negligible. Admittedly, a host of geographical and climatic factors influence the growth of non-farm business but broadly the non-farm activity is higher in States with low average assets, low owned land per cultivator, low average cultivated holdings, high percentage of cultivator households with less than 2.5 acres and low agricultural income per capita.

Institutional finance for non-farm activities appears to be very negligible until 1971-72. The available data indicate that the co-operative and commercial banks provided only 1-2 per cent of the total finance for the purpose of non-farm business in 1951-52 and 1961-62. The data on institutional finance provided after 1971 show that the advances by the primary co-operative societies and commercial banks for non-farm purposes had risen substantially during the quinquennium 1971-76. Co-operative finance for non-farm business which was around 2 per cent of the total advances until 1971-72 had expanded to 12 per cent by 1975-76. The fact that the credit-output ratio and the debt-asset ratio for non-farm activity were pitifully low in the background of a need for larger non-farm activity would, if anything, point to the need for larger provision of finance for non-farm activity. Besides, adequate funds do not appear to have reached the marginal and small farmers who need them most.