

Vidya Bhawan balika Vidyapeeth shakti utthan aashram Lakhisarai

Study material for class 10th

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Economics

Money and credit

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The two main reasons for formal credit not being available to the rural poor

:- the two main reasons for formal credit not being available to rural poor are:

- a) Absence of collateral and documentation in the main reason which prevent rural poor from getting loans from banks.
- b) The arrangements of informal sector loans are flexible in terms of timeline, procedural requirement, interest rates, etc. they are adjustable according to the need and convenience of the borrower. This attracts the borrowres

There is a need to expand rural credit from the side of formal sector because of the following reasons:

- a) Informal sector exploit rural poor by pushing them in debt-trap
- b) Cheap and affordable credit for rural poor is important for the country's overall development.
- c) With this credit, the rural poor can grow crops, business or set up small-scale industries.

The various sources of credit in rural areas

:- various sources of credit in rural area are

- a) Agricultural traders
- b) Moneylenders
- c) Commercial banks
- d) Cooperative societies
- e) Relatives and friends

The most convenient sources of credit is the moneylender because of the following reasons.

- a) There is no need of documentation process while taking loan from informal sources, such as moneylenders.
- b) No collateral security is required. Collateral is an asset that the borrower owns such as land, building, livestock etc. And uses this as a guarantee to the lender until the loan is repaid.

The banks and cooperatives to increase the lending facilities in rural areas

:- It is necessary for formal sources like banks and cooperatives to increase their lending facilities in rural areas because of the following reasons.

- a) Formal sources are far behind in meeting the needs of the people in rural areas. Informal sources like moneylenders, traders have taken the rural areas under their influence.
- b) Informal sources charge a high rate of interest from the borrowers which makes it difficult for them to repay the loan. They get trapped in the Debt-trap.
- c) Informal sources are not under any supervision from any authorised institution. They behave arbitrarily in terms of giving loans and setting terms of credit.
- d) The rich have better access to formal sources whereas poor are forced to depend on informal sources. Equal distribution of credit facilities is, therefore, required and is the need of the hour, so that the poor can also avail cheap and timely credit facilities.
- e) Formal sources of credit can help people in rural areas to avail other benefits like cold storage facilities, subsidised seeds and other agricultural inputs.

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