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- (57) Identify the type of effect that is caused by migration due to pull factors.
 (a) Negative (b) Positive (c) Zero (d) Relative
- (58) When there is no alternative, the villages forcibly migrate towards city what type migration in it?
 (a) Migration due to Attraction (b) Migration due to Distraction
 (c) International Migration (d) None of given
- (59) Place related migration is divided in to how many sections?
 (a) Two (b) Three (c) Four (d) Five
- (60) What type of migration is it called when woman to after marriage leaves her native place and settle else where?
 (a) Economic (b) Social (c) Political (d) Religious
- (61) What type of migration is caused due to Sardar Sorovar in Gujarat?
 (a) Economic (b) Social (c) Developmental (d) Political

Answers

(1) c	(2) d	(3) b	(4) b	(5) c	(6) b	(7) b
(8) c	(9) b	(10) a	(11) b	(12) b	(13) a	(14) b
(15) d	(16) d	(17) d	(18) c	(19) b	(20) d	(21) c
(22) d	(23) b	(24) c	(25) d	(26) d	(27) c	(28) c
(29) a	(30) c	(31) b	(32) b	(33) a	(34) c	(35) d
(36) c	(37) a	(38) b	(39) b	(40) a	(41) d	(42) a
(43) c	(44) c	(45) b	(46) c	(47) b	(48) b	(49) c
(50) c	(51) b	(52) d	(53) c	(54) c	(55) c	(56) c
(57) a	(58) b	(59) a	(60) b	(61) c		

Self Study

1. Give meaning of poverty and explain its concept.
 2. Explain the forms (types) of poverty in detail.
 3. Discuss the different indicators of poverty in India.
 4. Explain the reason of poverty in India.
 5. Give explanation about different effects of poverty.
 6. Define unemployment and give explanation of its types.
 7. Explain the causes of unemployment in India.
 8. Explain the effects of unemployment in India.
 9. Define migration and explain its types.
 10. Give explanation of different reasons of migration.
 11. Give explanation of positive and negative effects of migration.
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Unit-03**Rural Indebtedness****Outline of the Unit**

- | | |
|---|------------------------------------|
| 1. Rural Indebtedness: Meaning and Causes | 5. Types of Rural Credit |
| 2. Consequences of Rural Indebtedness | 6. Role/Importance of Rural Credit |
| 3. Rural Credit: Meaning and Objectives | 7. Sources of Rural Credit |
| 4. Need for Rural Credit | ➤ Multiple Choice Questions |
| | ➤ Self Study |

1. Rural Indebtedness : Meaning and Causes**1. Introduction :**

Most of the people in India are live in rural areas and are engaged in agriculture. Agriculture sector plays an important role in the rural development of the country. Sustainable development of rural areas is essential for the development of the country. But the Indian rural society is seen to be beset by various kinds of problems. Among the problems prevailing in the rural society, rural debt is an important problem in the rural sector.

This problem is just not related to one individual but is passed on from one generation to the next generation. Taking or incurring debt for the purpose of agricultural production is indeed necessary as it contributes to production.

Agriculture is the primary source of livelihood in rural India but the agricultural sector is sometimes vulnerable to various uncertainties such as crop failure, natural

calamities and market fluctuations. As a result, farmers often resort to borrowing money (debt) to meet their immediate needs and face unexpected challenges. Sometimes rural people also take loans for non-productive purposes like meeting family needs, performing social functions related to marriage, birth, death etc. Money used for non-productive purposes does not contribute to production or income but as it is used for consumption it results in rural indebtedness.

This problem of rural indebtedness extends beyond the agricultural sector, affecting a wide range of rural households engaged in various economic activities. It is very important to understand the causes and consequences of rural indebtedness in order to take effective measures and to alleviate the financial distress faced by rural communities in India.

2. Meaning of Rural Indebtedness :

Generally Indebtedness means an obligation to pay money to another party. Rural indebtedness refers to the situation where individuals in rural areas incur debt in the form of loans, to meet their financial needs. They are unable to repay the loan accumulated over a period. Rural indebtedness is an indicator of the weak infrastructure of our country, which includes inability of our economic system to reach to the needy farmers, landless people in the village and the agricultural labourers.

The farmers borrow loan for various purposes like agricultural expenses, supporting the family in the lean season, healthcare costs, expenses on celebrations, social expenses like celebrations, marriages, deaths and other livelihood-related expenditures. This type of expenses increases continuously without any limit. Due to lower income, the villagers are unable to repay the loans or pay the pending interest on the principal amount. Sometimes they take new loans to repay old debts and they continue to get stuck in the cycle of debt. High levels of rural indebtedness can have significant socio-economic implications, affecting the overall well-being of rural communities.

3. Definition of Rural Indebtedness :

According to Dandekar and Rath, rural indebtedness refers to the inability of a rural household to meet its debt obligations. They emphasize that indebtedness is not just a financial phenomenon but also has social and psychological dimensions, impacting the overall well-being of the rural population.

According to Sebastian Morris, "Rural indebtedness is a consequence of market imperfections, government policies, and institutional failures. He emphasizes the need for comprehensive rural development strategies to address the root causes of indebtedness."

According to Rudra Dutt, "Rural indebtedness is a result of the gap between income and expenditure in rural households. He highlights the cyclical nature of

indebtedness, where farmers borrow to meet immediate needs, but the burden of debt often exacerbates their financial situation in the long run."

According to Radhakrishna, "Rural indebtedness is a structural issue deeply rooted in the agrarian economy. He argues that the unequal distribution of land, lack of alternative livelihood opportunities, and inadequate social security measures contribute to the vulnerability of rural households to indebtedness."

4. Causes of Rural Indebtedness :

(1) **Poverty** : Many small rural farmers are below the poverty line. They don't generate enough income to meet the household needs. Also, social functions like marriage, birth, death etc. add to the burden. Such farmers take loans from lenders to sustain themselves. As they do not have any security for taking loans, lenders charge them high interest rates. Income is not generated by debt used for non-productive expenses. Farmers being poor are unable to repay the loan including interest and get trapped in the cycle of debt.

(2) **Crop failure and Natural Calamities** : Rural areas are prone to natural calamities like drought, floods and cyclones. Crops sometimes fail due to natural calamities, which can create financial hardship for farmers. Hence they have to borrow money to meet their immediate needs.

(3) **Low Productivity** : Agricultural productivity in some rural areas of India remains low due to outdated production methods, inadequate irrigation facilities and limited access to modern production methods. As a result the income of farmers decreases. Hence they take debt to meet their basic needs.

(4) **To make necessary improvements in agricultural land** : As land is the most important asset for income-earning in rural areas, it is necessary to make necessary improvements to the land. Farmers need huge amount of money to carry out some improvements like contour bounding for flood control, construction of wells for irrigation, deepening of wells, purchase of expensive equipment etc. As the farmers are poor and have less savings, they have to take loans to meet the cost of such improvements.

(5) **Inadequate Infrastructural Facilities** : In rural areas, infrastructural facilities like transportation facilities and storage facilities are not available adequately. Due to lack of transportation facilities, crops cannot be transported to urban areas for sale after harvesting and due to lack of storage facilities, they cannot be stored. Hence, the farmers suffer loss after harvesting the crop. As a result the income of farmers decreases. Hence they are forced to borrow to cover their losses.

(6) Inadequate Institutional Credit Facilities :

Availability of institutional credit in rural areas is essential for farmers. However, in some cases, institutional credit facilities such as banking are not sufficiently available

to farmers. As a result they are forced to resort to non-institutional sources of credit (lenders, brokers), who charge very high interest rates.

(7) **High cost of farm Inputs** : Rising expenditure on agricultural inputs like seeds, fertilisers, pesticides, tractors, modern technology equipment etc. adds to the financial burden of farmers. In the absence of a proper support system, farmers resort to borrowing to meet these expenses.

(8) **Social and Cultural Factors** : Social and cultural factors also play a role in rural indebtedness. For example, social obligations, ceremonies, and cultural practices may lead to increased spending, prompting households to borrow money to meet these expenses.

(9) **Government Policies and Implementation** : Sometimes, government policies related to agriculture, trade and credit do not effectively meet the credit needs of the rural population. Deficiencies in policy implementation add to the problem of rural indebtedness.

(10) **Price volatility in the market** : Farmers sometimes face challenges related to price volatility in the market. If the selling price of their produce is lower than expected, farmers incur losses and may find it difficult to repay loans. As a result their debt increases.

(11) **Inherited and ancestral debt** : Sometimes farmers in rural areas are burdened with inheriting loans from their family and ancestors. To repay the ancestral debt, they have to take another loan at high interest rates and are trapped in a vicious cycle of debt, which results in rural indebtedness. Thus, ancestral debt is a major cause of rural debt.

(12) **Excessive Burden of Land Revenue and Rent** : Land revenue, where it is levied by the government in some states and the rent payable to the landowners is becoming excessive burden on small farmers. In order to pay these land revenue, mid-rent, the farmers take loan. Sometimes, the farmers have to pay these rents and land revenues even during the floods and drought. This make the farmers run into debts.

5. **Conclusion** : Efforts should focus on improving rural financial infrastructure, promoting financial literacy, and implementing policies that address the root causes of rural indebtedness. Additionally, supporting sustainable agricultural practices, enhancing access to alternative income sources, and fostering economic diversification can contribute to reducing the vulnerability of rural communities to indebtedness. Ultimately, addressing rural indebtedness requires a holistic and integrated approach involving government initiatives, financial institutions, and community-based organizations. By understanding the unique challenges faced by rural populations and implementing targeted interventions, it is possible to create a more resilient and economically stable rural environment.

2. Consequences of Rural Indebtedness

1. Introduction :

Rural indebtedness in India has been a longstanding issue with significant consequences for individuals, families, and the overall economy. Rural indebtedness refers to the condition where individuals or households in rural areas borrow money and accumulate debt, often to meet their basic needs, agricultural expenses, or unforeseen emergencies. This phenomenon has both economic and social consequences that can significantly impact the well-being of rural communities.

2. Consequences of Rural Indebtedness :

The consequences of rural indebtedness can be described as follows.

(1) **Poverty and Financial Distress** : Rural indebtedness often leads to a vicious cycle of poverty. Farmers and rural households, burdened by debt, struggle to meet their basic needs and face financial distress. High-interest rates and the inability to repay loans on time can push families deeper into poverty, making it difficult for them to break free from the cycle of debt.

(2) **Suicides among Farmers** : The pressure of debt, connected with factors like crop failure, market fluctuations, and natural disasters, has contributed to a distressing number of farmer suicides in India. The inability to repay loans and the fear of losing land or livelihood can take a severe toll on the mental health of farmers.

(3) **Impact on Agriculture** : Rural indebtedness has detrimental effects on agricultural productivity. Farmers have to cut back on inputs such as seeds, fertilizers and implements, reducing their income and compromising crop quality. Lack of funds for modernization and adoption of technology hampers the overall growth and competitiveness of the agricultural sector.

(4) **Migration to Urban Areas** : Rural inhabitants burdened by debt may be forced to migrate to urban areas in search of alternative livelihoods. This migration can lead to overpopulation in urban centers, strained infrastructure, and increased competition for jobs.

(5) **Family Disintegration** : The stress of debt and financial difficulties can lead to family disintegration. In order to settle debts, people leave their elderly family members and children in villages and migrate in search of employment. As a result the family disintegrates.

(6) **Social and Political Unrest** : High levels of rural indebtedness can contribute to social unrest and political instability in the economy. Farmers burdened with debt may engage in protests and demonstrations to demand debt relief.

(7) **Effect on Banking Sector** : Non-repayment of agricultural loans can lead to a rise in non-performing assets (NPAs) for banks, which can affect the stability of the banking sector in India.

(8) **Government Fiscal Stress** : The government may have to intervene with financial relief programs or debt waivers to address the issue of rural indebtedness. This can strain government finances and divert resources from other development initiatives.

3. **Conclusion** : Rural indebtedness in India is a multifaceted challenge stemming from factors such as poverty, crop failures, inadequate infrastructure, and policy deficiencies. The consequences are far-reaching, impacting individual farmers, families, and the broader economy. The vicious cycle of debt contributes to poverty, farmer suicides, reduced agricultural productivity, migration to urban areas, family disintegration, and social unrest. Addressing rural indebtedness requires a holistic approach, encompassing agricultural reforms, improved credit facilities, and effective policy implementation to ensure the well-being of rural communities and the sustainability of the agricultural sector.

3. Rural Credit: Meaning and Objectives

1. Introduction :

Rural credit plays an important role in promoting economic development and alleviating poverty among agrarian citizens. Rural credit is the financial backbone for farmers and rural communities. Rural credit enables them to access capital for agricultural activities, livestock development and small scale businesses. Rural credit empowers farmers by providing financial instruments to invest in modern farming systems, purchase necessary equipment and diversify their income streams. As a result, agricultural productivity increases and their standard of living also improves. Sustainable and comprehensive development of the rural sector is possible through rural credit.

2. Meaning and Definition of Rural Credit :

Agriculture is the primary source of income of individuals residing in the rural regions across India. Every year, farmers need to invest a considerable amount of funds to ensure a healthy harvest. Thus, they often resort to borrowing money from moneylenders and financial institutions to fulfill their basic needs before harvest season arrives, and they can earn money by selling their crops. Similarly, small and micro businesses in rural areas also require financial funds from the planners. Thus, any loan taken for agricultural purposes or small home businesses across the rural areas in India is known as a Rural Credit. In other words Rural credit refers to the financial support or loans provided to individuals and businesses in rural areas. This type of credit is essential for the development of agriculture and rural economies.

➤ The World Bank defines rural credit as *"the availability of financial services in rural areas, including credit, savings, and insurance, to meet the diverse needs of rural households and enterprises."*

➤ According to the RBI, rural credit refers to *"the arrangement that enables farmers to utilize credit facilities to promote agricultural production and marketing of crops. It includes short-term, medium-term, and long-term credit."*

➤ Agricultural economists often define rural credit as *"the flow of funds from the financial institutions to the rural areas, primarily for agricultural and related activities, to enhance rural development and improve the standard of living of rural people."*

➤ NABARD describes rural credit as *"financial support extended for agricultural and other rural economic activities to promote rural development and improve the socio-economic conditions of rural people."*

➤ From a broader development perspective, some economists define rural credit as *"a key component of rural development strategies aimed at reducing poverty, promoting income-generating activities, and enhancing overall economic growth in rural areas."*

➤ Social scientists may define rural credit as *"a tool for empowerment and poverty alleviation in rural communities, providing financial resources to enable rural populations to engage in productive activities and improve their quality of life."*

➤ In the context of microfinance, rural credit is often seen as *"small-scale financial services provided to rural entrepreneurs, farmers, and households, including microcredit, microsavings, and microinsurance, to foster sustainable development at the grassroots level."*

3. Objectives of Rural Credit :

(1) **Agricultural Development** : Rural credit is often associated with agriculture, providing farmers with the necessary funds to invest in seeds, fertilizers, machinery, and other inputs. This helps enhance agricultural productivity and contributes to overall rural development.

(2) **Rural Enterprise Development** : Beyond agriculture, rural credit supports various rural enterprises, such as small businesses, cottage industries, and other economic activities. These funds help create employment opportunities and boost economic growth in rural areas.

(3) **Poverty Alleviation** : By providing financial resources to individuals in rural areas, especially those engaged in agriculture and related activities, rural credit contribute to poverty alleviation. It empowers people to improve their livelihoods and economic well-being.

(4) **Infrastructure Development** : Rural credit can also be used to finance essential infrastructure projects in rural areas, such as irrigation systems, rural roads, and storage facilities. These developments contribute to the overall improvement of living standards in rural communities.

(5) **Financial Inclusion** : Rural credit helps in bringing financial services to individuals who may otherwise have limited access to formal banking systems. This promotes financial inclusion and ensures that people in rural areas can participate in the broader economic system.

(6) **Women Empowerment** : Providing credit to women in rural areas is often a specific objective. Empowering women with financial resources enables them to engage in income-generating activities, contribute to household income, and participate more actively in decision-making processes.

(7) **Risk Mitigation** : Rural areas are often more vulnerable to various risks, including weather-related uncertainties. Credit can help farmers and rural entrepreneurs manage risks by providing a financial cushion during difficult times. This may involve the provision of crop insurance or other risk-mitigation measures.

(8) **Social and Economic Equity** : The objective of rural credit is often linked to reducing disparities in income and opportunities between rural and urban areas. By providing credit to those who might otherwise be excluded from formal financial systems, efforts can be made to create a more equitable society.

4. **Conclusion** : In short, the objectives of rural credit converge to create a holistic approach towards rural development, recognizing the interconnectedness of economic, social, and environmental factors. Successful implementation of rural credit programs requires collaboration between governments, financial institutions, and development organizations to tailor strategies to the specific needs and contexts of each rural population.

4. Need for Rural Credit

1. Introduction :

Rural credit plays a crucial role in fostering economic development and addressing the financial needs of the rural population. Rural credit refers to financial services provided to individuals, farmers, and businesses residing in rural areas, where traditional banking services may be limited or inaccessible. The need for rural credit arises from several factors that highlight the unique challenges faced by rural population.

2. Need for Rural Credit :

The need for rural credit in India can be described as follows.

(1) **Agricultural Development** : The majority of rural residents are engaged in agriculture. Access to credit enables farmers to invest in modern farming techniques, purchase quality seeds, fertilizers, and equipment, and adopt advanced technologies. This, in turn, enhances agricultural productivity and contributes to overall rural development. Therefore rural credit is necessary for agricultural development.

(2) **A long Gestation period** : In the agricultural sector, after sowing the crops, the period of income generation after production, harvesting and sale of the agricultural produce is very long. During this period farmers need to take credit to meet their various needs as well as to meet various expenses in the agricultural sector.

(3) **Income generation** : Rural credit enables the establishment and development of small and medium-sized enterprises (SMEs) in rural areas. These enterprises contribute to income generation, employment opportunities and poverty alleviation. Access to credit enables entrepreneurs to start businesses, expand existing ones, and diversify economic activities. Hence rural credit is essential to generate income in rural areas.

(4) **Risk Management** : Agriculture is susceptible to various risks such as weather uncertainties, pest attacks, and market fluctuations. Rural credit helps farmers and rural entrepreneurs mitigate these risks by providing them with financial resources to cope with unforeseen challenges. For example, farmers can use credit to purchase crop insurance or invest in diversified income-generating activities. Hence, rural credit is necessary to manage various types of risks prevailing in the agricultural sector.

(5) **Infrastructure Development** : Rural credit can be utilized for the development of essential rural infrastructure, including roads, irrigation systems, and storage facilities. Improving infrastructure enhances connectivity, reduces post-harvest losses, and contributes to the overall development of rural areas.

(6) **Women Empowerment** : Rural credit can be an important tool for empowering women in rural communities. Credit facilities are essential for women to engage in various income-generating activities, start new businesses and enhance the economic well-being of their families. As a result caste equality and social development is promoted in rural areas.

(7) **Animal Husbandry and Fisheries** : In addition to crop farming, rural credit supports livestock and fisheries activities. Farmers and entrepreneurs in these sectors can use credit to invest in animal husbandry, aquaculture, and related activities, leading to increased production and income of rural farmers in rural areas..

(8) **Financial inclusion** : Many rural populations lack access to formal financial services. The provision of rural credit helps in promoting financial inclusion by bringing these populations into the formal financial sector. This, in turn, improves their financial literacy and contributes to economic development of rural areas.

(9) **Personal Expenses** : People of rural area need rural credit to meet their personal expenses like marriage, death, birth, religious ceremonies, to repay old-debts etc.

3. **Conclusion** : The need for rural credit is undeniable and holds profound implications for the economic development and well-being of rural communities.

Access to credit is a fundamental catalyst for empowering farmers, small businesses, and individuals in rural areas, enabling them to invest in agriculture, enhance productivity, and build sustainable livelihoods. The multifaceted benefits extend beyond mere economic gains, encompassing social development, poverty alleviation, and overall community resilience.

5. Types of Rural Credit

There are three types of rural credit:

(1) **Short-term Loans/Credit** : Short-term credit is a type of rural credit taken for short-term private or business capital requirements. In this type of loan, the principal amount borrowed and the interest is to be repaid on a given date. The maximum tenure of this type of loan is up to one year.

(2) **Medium-term Loans/Credit** : A medium-term loan is the loan that has a repayment duration between 2 to 5 years or less than 10 years. Medium-term loans are an excellent option for small firms that are looking for a traditional way of credit with fixed repayment duration and anticipated amounts. The loan amount an individual receives may differ based on the cash flow, credit rating, and various other factors.

(3) **Long Term Loans/Credit** : A long-term loan is a loan whose repayment period usually ranges from 5 to 20 years. This type of loan or borrowing is important for building long-term assets, which give returns over time. Long-term loans in the agricultural sector are needed for land leveling, fencing, sinking wells and purchase of heavy machinery like tractors and other farm equipment.

6. Role/Importance of Rural Credit

1. Introduction :

Rural finance plays a key role in promoting economic growth and sustainable development in rural areas. As the backbone of agricultural society, rural credit caters to the specific needs of rural people. At its core, rural finance enables farmers and rural entrepreneurs to provide critical capital, invest in agricultural inputs, adopt modern technologies and establish small businesses. Credit facility in rural areas also works to reduce the problem of poverty by creating income opportunities along with boosting agricultural development.

2. Role/Importance of Rural Credit :

(1) **Agricultural Development** : Rural credit facilitates the purchase of seeds, fertilizers, pesticides, and other agricultural inputs, enabling farmers to improve crop yields and overall productivity. Farmers can use credit to invest in modern farming machinery and equipment, leading to increased efficiency, reduced manual labor and developing the agricultural sector.

(2) **For Livestock and Dairy Farming** : Rural credit is used by farmers for purchase of animals, breeding and proper care of them, which increases production in livestock and dairy sectors.

(3) **Promotion of Non-agricultural Activities** : Rural credit promotes agricultural as well as non-agricultural activities. Rural credit supports various rural enterprises such as small businesses, cottage industries and services. This helps in diversifying sources of income in rural areas.

(4) **Rural infrastructure development** : Rural development depends on rural infrastructural facilities like irrigation, transportation, roads, storage facilities etc. Rural credit makes it possible to invest capital to develop rural infrastructure. Agricultural productivity is improved through infrastructural facilities and agricultural product also gets advantages of wider market.

(5) **Poverty Alleviation** : Rural people can start or expand their own independent small businesses through rural credit facility. This leads to diversification of the sources of income of the rural family and also improves their economic well-being. As a result it contributes to eradication of rural poverty.

(6) **Managing Risks** : Rural areas especially in agriculture face challenges or risks like crop failure, natural calamities and price fluctuations etc. To mitigate this risk, crop insurance schemes are provided to farmers by lending institutions, which help in managing the risks associated with agricultural challenges.

(7) **Women Empowerment** : Rural credit can play a significant role in empowering women in rural areas by providing them with financial resources to start and manage businesses. This can contribute to gender equality and improve the overall socio-economic status of women in these communities.

(8) **Education and Healthcare** : Rural credit can also support investments in education and healthcare. Families with access to credit may be better able to afford education for their children and access healthcare services, leading to improved human capital development in rural areas.

(9) **Economic Growth** : Overall, rural credit stimulates economic growth in rural areas by fostering entrepreneurship, increasing agricultural productivity, and promoting sustainable development. This, in turn, contributes to the overall economic growth of a country.

In short, rural credit plays an important role in promoting economic development, reducing poverty and improving the quality of life of people in rural areas. Rural credit facilities enable rural communities to invest, manage risks and pursue opportunities for growth and development.

7. Sources of Rural Credit

1. Introduction :

Rural credit refers to financial services provided to individuals and businesses in rural areas to support agricultural and non-agricultural activities. There are various sources of rural credit exist to meet the financial needs of rural communities. These sources are intended to meet the specific financial needs of people involved in agriculture and non-agriculture sector, promote agricultural activities and facilitate overall rural development. Various sources of credit facilitate farmers and rural entrepreneurs with the necessary financial support for various income generating activities for agricultural investments. It contributes significantly to the empowerment of rural communities by facilitating credit through various sources of credit.

2. Sources of Rural Credit :

The sources of rural credit can be classified into two categories.

(a) Institutional Sources of Credit (Formal Credit)

(b) Non-institutional Sources of Credit (Informal Credit)

(a) Institutional Sources of Credit (Formal Sources) :

(1) **Commercial Bank** : Commercial banks initially played a negligible part in promoting rural credit. However, after nationalization in 1969, they extended their rural branches and began directly financing farmers. Earlier, these banks only accepted deposits from the urban populace and issued loans only to industry and trade. They usually ignored agriculture and rural businesses because agriculture is a high-risk business. However, today these banks provide both direct and indirect agricultural investment. Direct finance is granted here for short and medium-term periods, enabling farmers to perform agricultural activities with ease. Indirect finances are provided in the form of loans to buy items such as cereals and fertilizers. Commercial banks also grant finance to the Food Corporation of India and state food organizations for purposes such as food procurement. Additionally, they have implemented the "village adoption scheme," which was originally started by the State Bank of India and examines credit and other needs of the farmers.

(2) **Regional Rural Banks** : Regional rural banks are financial institutions specifically set up to cater to the credit needs of rural areas. They operate at the district level and sponsored by nationalized banks and the government. Regional rural banks provide credit and other banking services to landless laborers, small and marginal farmers and rural poor. The regional rural banks provide good interest to the people on their savings accounts. Besides, most of the population is employed in the agricultural sector in rural areas, and these banks also provide loans to farmers to purchase crops and fertilizers at significantly lower rates. This way, Regional rural banks in India play a key role in providing banking facilities to farmers living in remote areas.

(3) **Land Development Bank** : Land Development Bank provides long-term loans to farmers against the mortgage of their land. These loans, offered at low-

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interest rates for a period of 15 to 20 years, are typically availed for land development projects (like creation of wells or other irrigation related facilities.), outright land purchases and repayment of previous dues. Despite significant progress, the contribution of Land Development Bank remains limited due to lack of awareness among farmers about such schemes. A land mortgage is another name for this type of loan.

(4) **Co-operative Credit Societies** : Co-operative Credit Societies is the most important sources of rural credit. The main goal of co-operatives is to free Indian farmers from the clutches of moneylenders and provide them with credit at low interest rates. It was established with the goal of facilitating small and medium-sized farmers' complete financing requirements. Co-operative credit societies facilitate credit to small- and medium-scale farmers. These short-term credits are extended by Primary Agricultural Credit societies or PACs. Nonetheless, these societies have not been able to minimize the influence of moneylenders on the Rural Credit market.

(5) **National Bank for Agricultural and Rural Development (NABARD)** : National Bank for Agriculture and Rural Development (NABARD) is the apex bank which has to coordinate the functioning of various financial institutions that are working for the expansion of rural credit. The basic objective of NABARD is to promote the health and strength of credit institutions including commercial banks, cooperatives, and regional rural banks. It also provides assistance to the non-farm sectors for the promotion of integrated rural development and prosperity of backward rural areas.

(6) **Self Help Group (SHG)** : In recent years, Self Help Group (SHG) has played an important role in microfinance. Primary importance is given to rural poor in SHG. Sometimes the rural poor cannot get long-term credit facility through the institutional banking system. Hence the target consumers of Self Help Group include small and marginal farms, agricultural and non-agricultural workers, artisans etc. SHGs encourage frugality in small portions by asking a minimum contribution from each member. Funds collected are loaned to needy members at reasonable interest rates and also provide facility of repayment in small installments. SHG has also contributed to women empowerment. However, the purpose of borrowing (credit) from SHGs is mainly for consumption and a small portion of the borrowing is spent for productive purposes.

(7) **Government Schemes** : The Indian government implements various credit schemes to support agriculture and rural development. These schemes include the Kisan Credit Card (KCC) scheme, the Pradhan Mantri Mudra scheme and other agricultural credit schemes launched by NABARD and the Ministry of Agriculture.

(b) **Non-institutional Sources of Credit (Informal Sources) :**

(1) **Moneylenders** : Institutional banking facilities are limited in some rural areas of India. Moneylenders have long been the source of credit for agricultural households in the context of rural credit in such rural areas. Rural areas are mainly

dependent on agriculture sector. Farmers get credit from moneylenders to purchase seeds and fertilizers and to meet incidental expenses. However, they exploit the farmers by charging high interest rates and on the other hand by manipulating their accounts and not freeing them from the debt burden.

(2) **Traders and commission agents** : Traders and commission agents in agriculture provide loans to farmers for productive purposes before the maturity of crops and then force farmers to sell their crops after harvesting at very low rates and charge high fees. This type of loan is generally used for cash crops.

(3) **Relatives** : In times of crisis, cultivators frequently borrow funds from their own relatives and the repayment is made after harvest. These are informal debts that have no interest and are usually repaid after harvest.

(4) **Landowners** : Small and marginal farmers in rural areas of India also receive credit from landowners to meet their financial needs. Landowners provide financial assistance to farmers during sowing, cultivation and harvesting in agriculture. In return, farmers can repay the loan with interest in the form of a share of their agricultural produce. This source has been following all of the bad practices of moneylenders, merchants, and so on. Landless workers are sometimes forced to work as bonded laborers.

3. **Conclusion** : Rural credit plays a vital role in fostering agricultural and overall rural development, addressing the financial needs of individuals and businesses in remote areas. Institutional sources have significantly contributed to providing formal credit to farmers and rural entrepreneurs. These institutions aim to reduce the dependency on informal sources like moneylenders, traders, and relatives, which often exploit borrowers through high-interest rates and unfavorable terms. The emergence of Self Help Groups has brought about a positive shift, empowering rural communities, particularly women, through microfinance. While strides have been made, there is a need for greater awareness and implementation of these formal credit mechanisms to ensure equitable access and sustainable rural development.

Multiple Choice Questions

➤ Select the correct option from the given options.

- (1) What is the primary source of livelihood in rural sector in India?
 - (a) Manufacturing
 - (b) Services
 - (c) Agriculture
 - (d) Technology
- (2) Why do rural farmers in India often borrow money?
 - (a) To invest in the stock market
 - (b) To buy luxury goods
 - (c) To meet immediate needs and face uncertainties
 - (d) To travel for leisure

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- (3) What kind of uncertainties do farmers face in agriculture sector?
 - (a) Market fluctuations
 - (b) Crop failure
 - (c) Natural calamities
 - (d) All of the above
- (4) Apart from agricultural expenditure, for what non-productive purposes do rural people take loans?
 - (a) Meeting family needs, social functions and celebrations
 - (b) Starting a new business
 - (c) Educational expenses
 - (d) Infrastructural development
- (5) What does the term "rural indebtedness" refer to?
 - (a) The inability of urban areas to reach the rural population
 - (b) The situation where individuals in rural areas incur debt to meet their financial needs
 - (c) The prosperity of rural communities
 - (d) The lack of economic activities in rural regions
- (6) From the following points which point shows as a consequence of high levels of rural indebtedness?
 - (a) Increased savings
 - (b) Improved infrastructure
 - (c) Significant socio-economic implications affecting the well-being of rural communities
 - (d) Decreased population in rural areas
- (7) From the following which is a significant factor contributing to rural indebtedness?
 - (a) Urbanization
 - (b) Low productivity
 - (c) Excessive infrastructural facilities
 - (d) Decreased government intervention
- (8) What role do natural calamities play in rural indebtedness?
 - (a) They decrease the cost of agricultural inputs
 - (b) They increase crop productivity
 - (c) They create financial hardships for farmers
 - (d) They lead to a surplus in agricultural production
- (9) What social and cultural factors contribute to rural indebtedness?
 - (a) Government policies
 - (b) Social obligations and ceremonies
 - (c) Availability of institutional credit
 - (d) Adequate infrastructural facilities
- (10) Why do farmers sometimes face challenges related to price volatility in the market?
 - (a) Lower-than-expected selling prices
 - (b) Low cost of farm inputs
 - (c) High demand for agricultural produce
 - (d) Decreased government intervention

- (11) Which of the following is a consequence of rural indebtedness in India ?
 (a) Increase in agricultural productivity
 (b) Improved rural infrastructure
 (c) Vicious circle of poverty
 (d) None of these
- (12) What is a potential consequence for the banking sector due to non-repayment of agricultural loans ?
 (a) Increased profitability
 (b) Improved customer relations
 (c) Rise in non-performing assets (NPAs)
 (d) Enhanced financial stability
- (13) What does rural credit refer to ?
 (a) Loans for urban development
 (b) financial support for rural areas
 (c) Loans for industrial growth
 (d) Personal loans for urban residents
- (14) Which of the following is not an objective of rural credit ?
 (a) Urbanization
 (b) Agricultural development
 (c) Rural enterprise development
 (d) Poverty alleviation
- (15) How does rural credit contribute to poverty alleviation ?
 (a) By promoting urbanization
 (b) By providing loans for industrial growth
 (c) By empowering people in rural areas
 (d) By supporting luxury businesses
- (16) How does rural credit contribute to infrastructure development ?
 (a) Funding luxury projects
 (b) Financing for essential projects in rural areas
 (c) Investment in high technology industries
 (d) None of these
- (17) Why is rural credit essential for agricultural development in India ?
 (a) To promote urban development
 (b) To enhance agricultural productivity
 (c) To encourage service sector growth
 (d) To support industrial expansion
- (18) What is the significance of rural credit in managing risks in the agricultural sector ?
 (a) It provides insurance against crop failure.
 (b) It facilitates weather forecasting
 (c) It promotes market fluctuations
 (d) It encourages pest control programs
- (19) How does rural credit contribute to women empowerment in rural communities ?
 (a) By restricting women's access to credit
 (b) By promoting financial dependency
 (c) By enabling women to engage in income-generating activities
 (d) By discouraging women from starting businesses

- (20) What is the purpose of short-term rural credit ?
 (a) To fund long-term agricultural projects
 (b) To meet personal expenses like marriage and religious ceremonies
 (c) To support infrastructure development
 (d) To address short-term private or business capital requirements
- (21) What is the repayment duration of short-term rural credit ?
 (a) Up to one year
 (b) 2 to 5 years or less than 10 years
 (c) 5 to 20 years
 (d) More than 20 years
- (22) What is the repayment duration of medium-term rural credit ?
 (a) Up to one year
 (b) 2 to 5 years or less than 10 years
 (c) 5 to 20 years
 (d) More than 20 years
- (23) When are long-term rural loans typically needed in the agricultural sector ?
 (a) For personal expenses
 (b) For short-term capital requirements
 (c) For building long-term assets like land leveling and machinery purchase
 (d) For income generation through small enterprises
- (24) What is the repayment duration of long-term rural credit ?
 (a) Up to one year
 (b) 2 to 5 years or less than 10 years
 (c) 5 to 20 years
 (d) None of These
- (25) How does rural credit contribute to infrastructure development in rural areas ?
 (a) By promoting urbanization
 (b) By supporting the construction of shopping malls
 (c) By funding essential rural infrastructure like roads and irrigation systems
 (d) By encouraging the development of high-rise buildings
- (26) In the context of risk management, how can farmers use rural credit ?
 (a) To speculate in the stock market
 (b) To purchase crop insurance and mitigate uncertainties
 (c) To invest in luxury items
 (d) None of These
- (27) How many types of rural credit ?
 (a) Two
 (b) Three
 (c) Four
 (d) Five
- (28) Which type of rural credit is suitable for meeting personal expenses like marriage and religious ceremonies ?
 (a) Short-term Credit
 (b) Medium-term Credit
 (c) Long-term Credit
 (d) All of the above
- (29) How does rural credit contribute to employment opportunities in rural areas ?
 (a) By promoting unemployment
 (b) By discouraging entrepreneurship
 (c) By enabling the establishment and development of small and medium-sized enterprises
 (d) By limiting access to credit for entrepreneurs

- (39) Which institution is responsible for coordinating the functioning of various financial institutions working for rural credit expansion ?
 (a) National Bank for Agricultural and Rural Development (NABARD)
 (b) Commercial Bank
 (c) Regional Rural Bank
 (d) Land Development Bank
- (40) What is the main role of Regional Rural Banks in rural credit ?
 (a) Providing credit only to large farmers
 (b) Catering to the credit needs of urban areas
 (c) Offering banking services to landless laborers and small farmers in rural areas
 (d) Focusing on industrial and trade sectors
- (41) What is the purpose of the "village adoption scheme" implemented by commercial banks ?
 (a) Maximizing profits for the banks
 (b) Ignoring the credit needs of farmers
 (c) Examining credit and other needs of farmers in rural areas
 (d) Supporting only non-agricultural activities
- (42) Which non-institutional source of credit is known for exploiting farmers by charging high-interest rates ?
 (a) Traders and commission agents
 (b) Relatives
 (c) Landowners
 (d) Moneylenders

Answers

(1) c	(2) c	(3) d	(4) a	(5) b	(6) c	(7) b
(8) c	(9) b	(10) a	(11) c	(12) c	(13) b	(14) a
(15) c	(16) b	(17) b	(18) a	(19) c	(20) d	(21) a
(22) b	(23) c	(24) c	(25) c	(26) b	(27) b	(28) a
(29) c	(30) a	(31) d	(32) c	(33) c	(34) b	(35) a
(36) b	(37) b	(38) c	(39) a	(40) c	(41) c	(42) d

Self Study

1. Explain the meaning and causes of rural indebtedness.
2. Describe the Consequences of Rural Indebtedness.
3. Explain the meaning and objectives of rural credit.
4. Explain the need for Rural Credit in India.
5. State the types of rural credit.
6. Describe the role of rural credit in India.
7. Explain the sources of Rural Credit in India.



- (30) What is the primary purpose of long-term rural loans in agriculture sector ?
 (a) To build long-term assets like land leveling and purchase of heavy machinery
 (b) To fund short-term capital requirements
 (c) To support personal expenses
 (d) To discourage investment in agricultural projects
- (31) From the following what is the role of rural credit ?
 (a) Agricultural Development
 (b) Managing Risks
 (c) Rural infrastructure development
 (d) All of the above
- (32) How does rural credit contribute to poverty alleviation in rural areas ?
 (a) By encouraging manual labor
 (b) By restricting sources of income
 (c) By diversifying income opportunities
 (d) By reducing access to credit facilities
- (33) How does rural credit contribute to women empowerment in rural areas ?
 (a) By limiting financial resources
 (b) By promoting gender inequality
 (c) By providing financial resources for businesses
 (d) By discouraging entrepreneurship
- (34) What role does rural credit play in rural infrastructure development ?
 (a) Limiting access to transportation
 (b) Facilitating investment in infrastructure
 (c) Restricting storage facilities
 (d) Hindering agricultural productivity
- (35) How does rural credit stimulate economic growth in rural areas ?
 (a) By fostering entrepreneurship and sustainable development
 (b) By discouraging entrepreneurship
 (c) By decreasing agricultural productivity
 (d) By promoting dependency on manual labor
- (36) From the following which is the Institutional source of Credit ?
 (a) Moneylenders
 (b) Land Development Bank
 (c) Landowners
 (d) Relatives
- (36) Which of the following is a institutional source of credit ?
 (a) Moneylenders
 (b) Land Development Bank
 (c) Landowners
 (d) Relatives
- (37) _____ is the non-institutional Sources of credit.
 (a) Commercial banks
 (b) Moneylenders
 (c) Co-operative Credit Societies
 (d) Self Help Group
- (38) What is the primary goal of Co-operative Credit Societies in rural areas ?
 (a) Maximizing profits
 (b) Providing credit at high-interest rates
 (c) Freeing farmers from moneylenders and offering low-interest credit
 (d) Ignoring the financial needs of small and medium-sized farmers