

5. Why do we need to expand formal sources of credit?

Formal sources of credit are the govt. authorised organisations that are eligible to lend money to people.

The reasons for expanding the formal sources of credit are —

- High cost of borrowing leads to a major share of earning going into payment of interest on the loan so formal source of credit is needed.
- Sometimes the higher interest rate leads to requirement to pay more than the earnings, thus falling into a debt-trap. To eliminate this, formal sources of credit is needed.
- Borrowers falling into debt-traps discourage more people from borrowing, which ultimately reduces development of the country.
- Formal sources of lending to more borrowers

lead to higher incomes and many people could then borrow cheaply for a variety of needs like growing crops, set up business or small-scale industries.

6. What is the basic idea behind the SHGs for the poor? Explain in your own words.

The basic idea behind the formation of SHGs is to create self employment for the poor particularly rural poor women. The SHGs help poor borrowers to overcome the problem of lack of collateral.

They can get timely loans for a variety of purpose at a reasonable interest rate in the name of SHGs of which they are members. The SHGs are thus the building blocks of the organisation of the rural poor.

7. What are the reasons why the banks might not be willing to lend to certain borrowers?

- Some people fail to provide the required set of documents to get a loan.
- Irregular wages and no fixed job is also one reason because it increases the chances

of non repayment of loans.

- certain borrowers are added in the list of NPA's.
- There is high risk in approving loans to entrepreneurs.

Q. ~~Why~~ In what ways does the Reserve Bank of India supervise the functioning of banks? Why is this necessary?

Ans. It manages & supervise the functioning of banks in the following ways:-

- It monitors the bank in maintaining cash balance
- Loans are not just given to profit making organisations but also to small cultivators and small scale industries.
- RBI maintains periodic report of other banks regarding the amount loaned to people
- It also keeps a regular check on the interest rates asked on loans in public sector banks.

Q. Analyse the role of credit for economic development.

Development is sustained by a proper credit policy. By giving loans in agriculture, industry & trade, banks provide the necessary funds needed for carrying on the business.

This results in increased production and services, more employment and profits. For cultivators, credit is needed for the betterment of agricultural practices. If farmers and poor people get credit at cheaper rates, then they will be able to generate self employment for themselves and lead their life in better way. ~~when everyone~~