

1. What are the differences between formal and informal sources of credit?

Points on which different	Formal sources of credit	Informal sources of credit
• Borrowers' creditworthiness	• Richer people having assets which can be pledged as collateral	• Poorer people having assets which can be pledged
• Rate of interest	• Reasonably low	• Very high
• Sources	• Banks and <del>co</del> cooperative societies	• Traders, moneylenders, handlooms etc.
• Action on default of payment	• Collateral can be confiscated and sold to recover the loan	• Borrower can be made as bonded labourer or made to pay with land owned by them

2. Why should credit at reasonable rates be available for all?

Ans. Credit at reasonable rates should be available for all, so that the poor people can benefit from the cheap loan.

3. Should there be a supervisor, such as Reserve Bank of India, that looks into the loan activities of informal lenders? Why or would not. It is quite difficult.

Ans. There should be a supervisor for checking the loan activities of informal lenders. However, it is quite difficult because informal sector constitutes many people who have different kind of business of their own, besides lending they are not registered with the government.

Why do you think that the share of formal sector credit is higher for the richer households compared to the poorer households?

The share of the formal sector credit is higher for the richer households because the richer households are in a better position to provide collateral and other necessary documents which are required by the banks and co-operatives. Richer households have more to exert pressure on banks and co-operatives to sanction loans. Richer households have greater capacity to repay the loans compared to the poor households.