

H.w

Why do we need to expand formal sources of credit in India?

Ans We need to expand formal sources of credit in India due to the following reasons.

1. The money lenders on the agricultural traders charge a much higher interest on loans. They generally charge 5 percent per month. Whereas the banks charge about 10 + 15 percent per annum. The higher rate of interest does little to increase the income of the borrowers.
2. The farmers who take loans from a trader are forced to sell their own crops to him at a low price. As a result of all this the farmers suffer with the trader and make a profit by selling grain at a higher price.

3. Higher interest mean the borrower has to pay a major portion of his earnings to repay the interest and principal of the loan. This sometimes leads to debt trap for borrowers.

4. On the other hand, banks and cooperatives charge less interest and do not exploit the borrowers. Under these circumstances there is need for expansion of formal sources of credit in India. It is also necessary that everyone should have loans from.

5. This would also lead to higher income and many people could then borrow cheaply for a variety of needs. The formal credit should be distributed equally to benefit the poor from the too cheap loan.

6. It may be added that cheap and affordable that cheap and affordable.

Credit to
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the country

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

Ans. The basic behind the SHGs is to
provide a financial resource for
the poor through organising the
rural poor, especially women,
into small self help groups. They
also provide timely loans at
a reasonable interest rate without
collateral. Thus, the main
objectives of the SHGs are:-

1. To organise rural poor especially
women into small self help
groups
2. To collect savings of their
members
3. To provide timely loans
for a variety of purposes

5. To provide loans at a reasonable rate of interest and easy terms

6. Provide a platform to discuss and act on a variety of social issues such as education, health, nutrition, domestic violence, etc

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Q In what ways does the Reserve Bank of India Review Supervise the functioning of banks? Why is this necessary?

Ans The Reserve Bank of India monitors the amount of money that banks loan out and also the amount of cash balances maintained by them. It also ensures that a quality is preserved in the financial sector and that small industries are also given an outlet to grow. This is also done to make sure that banks do not loan out more money than they are supposed to. It also submits information to the government as this can

lead to situations like the Great
Depression of the 1930s in the
USA, which greatly affected the
world economy as well.