

has the

obtain payment.

sources of

Q) What are the differences between informal and formal

Formal
sector

Informal
sector

- The formal are loans from banks and cooperatives
- The informal lenders include money-lenders, traders, employers, relatives.
- The Reserve Bank of India supervises the functioning of formal sources of loans.
- There is no organisation which supervises the credit activities of lenders.
- Because of the supervision by RBI banks can't change their interest rates according to persons for their profit. Hence low interest value.
- They can lend whatever interest rate they choose and hence high interest rates.
- Documentation takes place by RBI. which take more time to issue a loan.
- No documentation occurs and loan can issued fast.

- Collateral is compulsory for the issue of loans.
- No, collateral is required in maximum cases.

Home assignment

Q1) What are the differences between formal and informal sources of credit?

Q2) Why should credit at reasonable rates be available for all?

Everyone's per month income is different and not everyone is rich hence the poor people in our society cannot afford loan with higher interest, compared to their per month income. So credit at reasonable rates should be available for all.

Q3) Should there be a supervisor, such as the RBI, that looks into the loan activities of informal lenders. Why would its task be quite difficult?

Yes, there should be a supervisor that looks into the loan activities of informal lenders as they are charging higher rate of interest from the poor who find difficult to pay. And in majority cases the informal lenders make profit. This task will be difficult as the informal money lenders are not registered by the govt.

Q2) Why should credit at reasonable rates be available for all?

Everyone's per month income is different and not everyone is rich hence the poor people in our society cannot afford loan with higher interest, compared to their per month income. So credit at reasonable rates should be available for all.

3Q) Should there be a supervision, such as the RBI, that looks into the loan activities of informal lenders? Why would its task be quite difficult?

Yes, there should be a supervision that looks into the loan activities of informal lenders as they are charging higher rate of interest from the poor who find difficult to pay. And in majority cases the informal lenders make profit. This task will be difficult as the informal money lenders are not registered by the govt.

Q4) Why do you think that the share of formal sector credit is higher for the richer households compared to the poor households
share of

The formal sector credit is higher for the richer households compared to the poor households as the formal organisation can easily trust to the richer households in case of documentation and, availability of collateral and time to time repayment as compared to poor households