

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

(1)

The moneylenders on the agricultural trade charge a much higher interest on loan. They generally charge 5 percent per month. Whereas the banks charge about 10 to 15 percent per annum. The higher rate of interest does little to increase the income of the borrower.

(2)

The farmer, who takes loan, from a trader is forced to sell their crops to him at a low price. As a result of it the farmer suffer while the trader make a profit by selling grain at higher prices.

Higher interest means 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 the borrower.

On the other hand banks and cooperatives charge less interest and do not exploit the borrower. Under these circumstances there is need for expansion of formal sources of credit in India. It is also necessary that

Everyone receives these loans

This would also lead to higher incomes and many people could then borrow cheaply for a variety of needs. The formal credit should be ~~created in India at 15% or 20% interest rate~~ distributed equally to benefit the poor from the cheap loan.

It may be added that cheap and affordable credit is crucial for the development of the country.

(a) The basic behind the SHGs is to provide a financial resource for the poor through organizing the rural poor especially women into small self help groups. They also provide timely loans at a responsible interest rate without collateral.

(b) The role of credit for development is very significant as mentioned below

→ It helps in increasing economic activities of the borrowers

If credit is made available to the poor people on reasonable terms and conditions they can improve their economic condition. This will help in overall development.

Credit may increase in activities in the Secondary Section manufacturing Section Thus with credit people could grow crops do business, setup small-scale industries They could setup new industries on made in goods. Therefore credit is crucial for the country's development.