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

Ans ⇒ To reduce dependence on informal sources of credit because the latter charge high interest rates & do not benefit the borrower much.

⇒ Cheap and affordable credit is essential for country's development.

⇒ Banks & co-operatives should increase their lending particularly in rural areas.

Q6 What is the basic idea behind the SHGs for the poor? Explain in your own words.

Ans The basic idea behind the formation of SHGs is to provide a financial resource for the poor through organizing the rural poor especially women into small self-help groups.

Thus the main objectives are:-

- ⇒ To organize rural poor especially women into small self-help groups.
- ⇒ To collect savings of their members.
- ⇒ To provide loans without collateral.
- ⇒ To provide timely loans for a variety of purposes.
- ⇒ Provide a platform to discuss and act on a variety of social issues such as education, health, domestic violence etc.

Q8 In what ways does the Reserve Bank of India supervise the functioning of banks? Why is this necessary?

Ans The Reserve Bank of India supervises the functioning of banks in a number of ways.

- ⇒ RBI checks that the banks actually maintain cash balance out of the deposits they receive. Currently this is 15%.
- ⇒ RBI observes that the banks give loans not just to profit making businesses and trade but also to

Small cultivators, small scale industries, small business etc.

=) The commercial banks have to submit information to the RBI on how much they are lending / to whom, at what interest rate etc.

This is necessary to ensure equality in the economy of the country and protect especially small depositors, farmers etc.

Q6 Analyse the role of credit for development.

Ans. Cheap and affordable credit plays a crucial role in the country's development. There is a huge demand for ~~credit~~ loans for various economic activities. The credit helps people to meet the ongoing expenses on production and thereby develop their business. Many people could then borrow for a variety of ~~different~~ different needs. Credit helps in expansion of small business & farmers can grow variety of crops. The students get a loan without collateral for higher education which leads to the development of nation. In this way credit plays a vital role in development of a country.