

H.W.
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Q5. Why do we need to expand formal sources of credit in India?

Ans ① To reduce dependence on informal sources of credit because the latter charge high interest rates and do not benefit the borrower much.

② Cheap and affordable credit is essential for country's development. The formal sector still meets only about half of the total credits needs of the rural people.

③ Banks and co-operatives should increase their lending, particularly, in rural areas. The borrowers depend on informal sources like money lenders who charge them a high rate of interests, which can sometimes land them into a debt-trap.

④ This would lead to higher incomes and many people will be able to borrow cheaply for a variety of needs. They will be able to grow

crops, do business & set up small scale industries etc.

6. 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 create self-employment for the poor, particularly rural poor woman. ~~Self~~ In India, SHGs bridge the gap between high-caste & low caste members. They also provide timely loans at a responsible interest rate without collateral. Thus, the main objectives of the SHGs are:

- * To organize rural poor especially women into small Self Help Groups. A typical SHGs has 15-20 members.
- * To collect savings of their members.
- * To provide loans without collateral.
- * To provide timely loans for a variety

of purposes.

- * To provide loans at responsible rate of interest and easy terms.
- * Provide a platform to discuss and act on a variety of social issues such as education, health, nutrition, domestic violence etc.

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

Ans Reserve Bank of India is the central Bank of the country and works as the supervising authority over other banks across the country. The Reserve Bank of India supervises the functions of banks in a number of ways:

- RBI checks that the bank actually maintains a minimum cash balance out of the deposit they receive. Currently this is 15%.

- RBI observes that the banks give loans not just to profit making businesses and traders but also to small scale industries, small borrowers 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, small scale industries, small borrowers etc. Further, RBI monitoring ensures that banks do not loan more than they are supposed to, as such an action can create a crisis situation. Great Depression of 1930 is an example of such a crisis situation.

9. 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 loans for various economic activities. The credit helps people to meet the ongoing expenses of production and thereby develop their business. Many people could then borrow for a variety of different needs. Credit helps in expansion of one's business, farmers can grow a variety of crops, procure equipment for farming, send their children for higher education etc. Students get a loan without collateral for higher education which again leads to the development of the nation.