

**UGC Sponsored Minor Research Project**  
**An Empirical Study of Financial Inclusion and Unorganized Sector**  
**Workers Dependency on Money Lenders**

Dr. K. M. Jagannath

Associate Professor

Department of Commerce,

Shanthi Arts, Science and Commerce College,

Malavalli, Mandya Distt.

Karnataka State Pin-571430

Email: [kunjali Jaggu@yahoo.com](mailto:kunjali Jaggu@yahoo.com)

**Executive Summary**

Self-employed workers, who depend on their own labour for survival and have hardly any assets, fall under the unorganized sector of the society. 92 percent of all workers in India are in the unorganised sector while 96 percent of all women workers are in the unorganised sector. More than 50 per cent of the national products are accounted for by the informal economy. However, which doesn't provide social security and other benefits of organized sector. Most of them are engaged in agriculture in rural areas and contract, sub-contract, daily labour and migrated agriculture labour in urban areas. Casual, temporary and contract workers in the public sector those who hired through the mediation labour contractor or agency also come into unorganized sector. Wikipedia states that they are "consisting of all unincorporated private enterprises owned by individuals or households engaged in the sale or production of goods and services operated on a proprietary or partnership basis and with less than ten total workers..." The definition goes on... "*Employees of enterprises belonging to the unorganised sector have lower job security and poorer chances of growth, and no leaves and paid holidays, they have lower protection against employers indulging in unfair or illegal practices.*" The unfortunate part is unlike organized sector, there is no formal way to assess the quality of work or resulting customer experience. For good quality work that brings positive difference for significant population by many such workers, they do not really earn the wages good enough to make difference in their own lives.

Inadequate accessibility to credit by the poor is one of the major concerns in many developing nations and particularly that of India. Majority of households in India being either self-employed in agriculture or in small business sector need credit on a regular basis to carry out their income generating activities, for which they depend on either formal or on informal sources. Needless to say, the latter comes with unfavourable terms and conditions in the form of high interest rate or taking possession of collateral in case of default. In spite of having several schemes in the formal sector for the small borrowers (especially farmer households), empirical evidence reveals that (see NSSO 59th round) comparatively richer borrowers have much better access to formal banking sector. Formal banking sector

is often hesitant to lend to the small borrower for the fear of non-repayment of loan and resulting transaction and monitoring costs involved.

### **Importance and Causes of Unorganized Labour**

Informal employment prevalence has been one of the main features of Indian labour market and more than 90 per cent of total workforce is entangled in the informal economy. ILO defines “informal sector” as consisting of units engaged in the production of goods or services with the primary objective of generating employment and incomes to the persons concerned. The units operate at low level of organisation, with little or no division between labour and capital as factors of production and on a small scale. Labour relations– are based mostly on casual employment, kinship or personal and social relations rather than contractual arrangements with formal guarantees. According to the National Commission for Enterprises in the Unorganised Sector (NCEUS), unorganised sector contributes about half of the country’s GDP. The growth rate of total employment is much more when compared with formal employment which indicates that informal sector has been much more significant in the employment opportunities within the country. The data from various sources reveal that there is increase in informal or unorganised workers within the formal sector as well. The unorganised sector plays an essential role by providing job opportunities to a large proportion of workforce and contributing to national product significantly. 84.7 per cent of jobs in the economy were in the informal sector, 4.5 per cent in the public sector, 2.5 per cent in the private corporate sector and 8.4 per cent in the ‘formal’ household sector, consisting of enterprises employing more than five workers. More than 90 per cent of women workers are concentrated in informal sector. Women are found to be over-represented in the informal sector because the flexibility, especially in home-based work, is advantageous to them given their other needs and demands upon their time in the form of unpaid labour. Women, who are generally unskilled, are considered to be the cheap source of labour

### **Need for the Study**

The lack of adequate finance in the unorganized sector is one of the important problems in a growing and developing economy like India. Scarcity of funds restricts the growth of the informal sector and being exploited by multiple authorities. Expensive loans from informal sources for working capital, unreliable remittance services, lack of awareness on risk mitigation and pension products are some of the problem faced by informal sectors. Major portion of the required funds are from informal sources, especially from money lenders. Banks cannot replace the moneylenders, who are present at every nook and corner of the rural sector. Though apparently the interest rates charged by them are comparatively high, taking into account the risk factors, such as poor quality of security, lack of proper records, incidence of high degree of crop failure, it can be said that from an economic point of view the moneylender still plays a vital role. They are aware not only of the quantum of finance required by the rural people but also the timing. However, one of the severe problems related to informal credit is very high rate of interest charged by the money lenders and wholesalers. This has been proved in many studies. Many

workers attempted to suicide due to harassment of money lenders. For example one Mr. Siddegowda of G.B.Sargur, H.D.Kote district attempted suicide by consuming poison and died in K.R.Hospital, Mysuru on 19-8-2015. He mentioned in his death note four persons of harassing him to repay loan taken from them. Mr. Siddegowda did not own land and was tilling his relative's land. The money lenders had seized his motorcycle in lieu of payment, and overcome by grief he consumed poison (Star of Mysuru 20-8-2017). Therefore, the need for study arises to answer some of research questions. It includes to know which source the unorganized sector workers prefer to borrow from and why? Why this sector of workers does not prefer institutional source to meet their monthly expense? What extent the unorganized sector worker has awareness on the central government schemes specially meant for them and extent of its use? To analyze the unorganized workers perceptions on micro finance credit and money lender.

### **Objectives of the Study**

The main objectives of the study are:

1. Document the current status of financial inclusion of informal workers;
2. To understand the reasons for reluctance to borrow from institutional sources;
3. Examine the perceptions of unorganized sector workers regarding formal and informal source of funds;
4. Analyze the extent of awareness of various supporting schemes introduced by the government to this segment;
5. To determine the most preferred source of finance to unorganized sector workers and reasons for its dependency.

### **Methodology and Database**

By considering the aim and objectives of the study, a sample survey was conducted in three districts, viz. Mysuru, Mandya and Kodagu district. The study was descriptive in nature and employed the survey method to gather information to analyse the stated objectives. In order to effectively conduct a valid analysis in the presentation and analysis of the data collected on the research field, we used descriptive statistics such as tables and percentiles to depict the relevant data. The study utilized primary sources of data in which structured questionnaire were extensively used. The purpose was to generate data about the opinion and perceptions of unorganized workers towards money lenders. To constitute sample size out of the population of the study, simple random sampling technique was used to select 60 workers from each district and totally 180 sample respondents who are involved in construction work, vegetable vending, mechanics, Taxi drivers, persons working in retail outlets, hotels and coffee estate were included . Out of total sample size of 180 persons 108 persons are male and remaining 72 persons are female respondents.

### **Findings of the Study**

The following are the findings of the study.

1. The workers in the unorganised sector are dispersed, unorganized, less educated, having less security, financially weak and have poor bargaining power in general.
2. They do not have regular employment. Sometime it is seasonal. Majority of the unorganized sector workers will get on an average 10 to 20 earning days per month.
3. 80 percent of the male respondents are being the holder of bank account and this percentage is only 22 percent in case of female respondents.
4. Majority of the respondents opened bank account with the main objective of getting benefit of government subsidies.
5. SHG plays a vital role in micro financing. 64 percent of the female respondents and 15 percent of the male respondents are members of SHGs. Their weekly savings is around 100 rupees.
6. One of the important savings modes of unorganized sector workers is informal chit fund. 70 percent of the male respondents and 35 percent of female respondents are member of chit fund. Therefore, overall 56 percent respondents prefer to invest in chit funds. Their monthly savings in chit fund is around rupees 500.
7. The purpose of borrowing is equally important factor to analyze the unorganized workers dependency upon money lenders. Majority of the respondents borrowing fund mainly to settle debts and to meet family expenses.
8. Money lenders are in dominating position for giving short term loans to informal sector workers. Banks cannot replace the moneylenders since they are present every nook and corner of street. 49 percent of the respondents depend upon money lender to meet their regular needs. The average number of times borrowed is 8 times per annum and it is just 1 from formal sources.
9. The interest rates charged by the money lenders are comparatively high, still they play vital role in catering the financial needs of the informal sector workers.
10. As it is a costly borrowing and many of the borrowers do not have regular income to pay back, often the repayment obligation multiplies beyond their capacity, which leads to suicides, fleeing from houses or, ends up in clashes and physical fights.
11. Low legislative protection due to scattered and dispersed nature of employment, no formal employer-employee relationship and inadequate welfare measures to reach them due to lack of organization, budget constraints and other factors.
12. In spite of number of programs introduced by the government to cater the financial needs of the unorganized sector workers majority of them un-aware of the schemes.
13. The major reason for exclusion of unorganized workers in the financial inclusion is they do not have regular employment and no employer employee relationship.
14. Availability of timely loan and less procedure are the major reasons to attract the informal sectors towards money lenders.

15. Unorganized sector workers reluctant to go to micro finance institutions because of cumbersome procedures followed and security aspect.
16. The major reason for default in loan repayment is due to no regular income and natural disasters.
17. The impact of dependency of money lenders is they charge heavy interest ranging from 30% to 60% and they take advantage of illiteracy of unorganized sector workers to manipulate the accounts regarding loans to their advantage.
18. Regarding the perceptions on micro finance credit majority opined that there is cumbersome procedure and undue pressure for repayment.
19. Regarding the perceptions on money lenders majority of the respondents' opined, timely availability and less procedure are to be followed are major reasons to depend upon money lenders.
20. Around 59 percent of the respondents opined there is harassment from money lenders in spite of benefit of timely loan.
21. Money lenders give loan to known persons who are staying nearby of their locality. They will have confidence on the persons who are borrowing funds. Therefore, majority of them are not expecting security for their loan.

### **Suggestions**

The Government of India and the Reserve Bank of India have been taking efforts to promote financial inclusion with the fundamental objective of providing financial services to the financially excluded Indian people. Despite these efforts still cent percent financial inclusion is not achieved. Based on the study the following are some of the suggestions:

1. Informal sectors are unable to offer collaterals or guarantors because of their weak economic status. Therefore, banks should arrange collateral-free loans at the subsistence level in order to accommodate their needs.
2. Need is felt to strategize the provision of bank credit to the informal segment of workers. Because majority of these are not at all covered by the formal finance. As such public sector banks and the co-operative banks have to sensitize about the need for provision of timely and cheaper credit to these segments.
3. Develop more customized as well as flexible loan products specifically catering to the needs of this sector, and to develop new delivery channels for lending to the unorganized sector directly and indirectly.
4. Lending procedures should be simplified. The frontline staff members who respond to loan enquires should be well trained to be competent enough to answer all issues at once so that loan seekers are not frustrated in their pursuit to secure financial help.
5. In order to achieve financial inclusion for unorganized workers, micro finance institutions like SHG and bank have to work collaboratively with one another along with the government bodies.
6. In the present scenario money lenders are not supervised and majority of them operate without a license and they charge interest rates contrary to the Money

Lending Act. Therefore, it is imperative to take harsh measures against those unregistered and illegal money lenders.

7. Before giving licence to the money lenders they have to give declaration to abide the prevailing rules and regulations and have to disclose their identification, recommended capital investment area of operation along with reference from a reputed person in the society. If need arises the issuing authority may consult the respective police authority to confirm the character and integrity of the person who is seeking to start money lending business.

8. The government has to create a special bank under the jurisdiction of Municipal Corporation to provide easy loan services to unorganized sector workers and also has to extend social security facilities like pension, health services, educational opportunity of children and low cost houses etc.

9. More number of bank branches should be opened in rural areas whereas those branches which are operating should aim at its efficiency and they should treat the informal segments with care, formalities in granting loans should be minimised, information regarding government schemes should spread out comprehensively, in addition to this information regarding latest technology should also be spread.

10. The banks need to conduct skill development orientation programmes, training programmes, organise workshops etc. to propagate the various schemes introduced by the government and how banks can rescue them under the clutches of money lenders and their harassment.

11. It should be the endeavour of all the financial institutions to adopt financial inclusion as a corporate social responsibility and chalk out strategies in tune with the national policy on financial inclusion.

### **Further Research**

The present study has some limitations like small number of respondents, limited area and considered only few criteria which are not sufficient to take generally accepted decisions. Therefore, it is better to consider some of the left out criteria's to get more refined results. In this research no segregation is made between workers engaged in different businesses and vocations. Sometime problems may be very particular to certain types of workers who are come under particular types of work. Therefore, research on each category workers for eg., construction workers, street vendors, mining labour, self-employed persons etc., gives much information for policy makers.

### **Limitations of the Study**

The research was undertaken with the following limitations and hence the implications of these findings should be taken very cautiously:

1. The number of sample respondents is only from three districts and it is small in size. Obviously, it affects on the results and the opinion might not be representing the universe in many cases;

2. Despite the structured questionnaire and personal interview we used to collect information, the respondents low level education and non-co-operation to disclose frank personal information might affects the results.
3. In this study, only few attributes were studied. For more refined result, it is suggested to include more number of attributes;
4. Because of insufficient and reluctance to response from the respondents it was not possible to determine the real problems of the informal workers;
5. The respondents do not have patience to respond the questions asked by the researcher and scared to give information on their financial transactions;
6. Some of the information given by the respondents are contradictory in nature, therefore, like any other research using sampling method, this study is also subject to sampling error.

## **Chapterization**

<u><b>Chapter No.</b></u>	<u><b>Title of the Chapter</b></u>
1	Introduction
2.	Government and Institutional Initiatives towards Financial Inclusion of Unorganized/Informal Workers
3	Review of Literature
4	Analysis and Interpretation of Data
5	Findings Suggestions and Conclusion
6	Bibliography
7	Annexure

## **Conclusion**

Financial inclusion is a continuous process. It is a huge project which requires concerted and team efforts from all the stake holders-the Government, financial institutions, the regulators, the private sectors and the community at large. The lack of adequate finance in the unorganized sector is one of the important problems in a growing and developing economy like India. Despite various initiatives taken by the government and Reserve Bank of India, still majority of informal sector workers who accounts more than 80 percent in the country excluded from financial inclusion. Banking and insurance facilities are not reached to these persons. RBIs initiative to opening more branches in rural and remote areas and digitalization of banking transaction is not fulfilled the needs of our informal groups. Cumbersome procedures to take loan from bank, insisting securities for loan, delay in sanctioning loan, putting pressure while recovering loan are among the reasons the unorganized sector forced to depend on money lenders to meet their financial needs.