



Impact of Unorganized Lenders on the Socio-Economic Development of Small Traders across Bengaluru City

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ABSTRACT

The main aim of the study is to gain a knowledge about the financial literacy and to make realize the small traders about the available easy facilities provided by the banks and other financial institution. The major thing focused in this study to improve financial literacy among the small traders about the particulars like interest charges, required documents to avail finance from banks and other financial institutions and make them to realize that bank. This study focus on the challenges faced by the small traders in obtaining credit from organized sector and their willingness towards the unorganized lenders and the interest rate charged by them. It also shows the why the small traders majorly target unorganized lenders for seeking credit for their business, emergencies, education and others. Small traders lack of financial literacy and land up paying high interest to unorganized money lenders for the loan they taken from them. Small traders where they are unable to pay loan which they borrowed from unorganized lenders and Obtaining finance from unorganized lenders leads in charge of high rate of interest as compared to banks, financial institutions. Majority of them have availed credit from unorganized lenders due to the easy availability of credit for them without any paperwork. Descriptive research has been used in this research statistical tool like chi-square and correlation for ascertaining the association and relationship between the small traders, unorganized lenders and organized lenders. The main objectives of the study was to understand the level of financial literacy among the small traders. The major limitation of the study was existence of some sampling bias.

Keywords: Unorganized lenders, small traders, financial literacy, credit availed, working capital

INTRODUCTION TO THE STUDY

The unorganized sector of the money market is largely made up of indigenous bankers, money lenders, traders, commission agents etc. Some of whom combine money lending with trade and other activities. The role of unorganized sector dynamic in the development of transition of economics as attracted the attention of theoreticians and research over the many years. Unorganized lenders majorly lend finance to small traders where they face a major problem of repayment of finance due from their customers and there is a huge of risk. Where in case of small traders face a problem of financial literacy and high rate of interest charged by the unorganized lenders which they get into trouble on the time of repayment of the due.

NEED FOR THE STUDY

The study can realize availing credit from organized sector is different from unorganized money lenders the actual problem faced by the small traders as well as by the unorganized lenders. Small traders lack of financial literacy and land up paying high interest to unorganized money lenders for the loan they taken from them. Small traders where they are unable to pay loan which they borrowed from unorganized lenders and Obtaining finance from unorganized lenders leads in charge of high rate of interest as compared to banks, financial institutions.

This study is to know the various problems faced by the small traders for raising the fund and identify the level financial literacy or financial knowledge they have and to know the problems faced by small traders. Where small traders faces major problem in processing financial knowledge and they land in paying high interest to unorganized money lenders and to realize the utility of money for their own development that they borrowed from unorganized money lenders.

OBJECTIVES OF THE STUDY

1. To understand the level of financial literacy among the small traders
2. To know the challenges faced by the small traders
3. To learn the various sources used by them to obtain loan
4. Formulating strategy and finding solution for coping with problems faced by small lenders.

HYPOTHESES

H10: There is no significant relationship between duration of repayment of loan and methods of repayment

H11: There is a significant relationship between duration of repayment of loan and methods of repayment

H20: There is no significant association with the type of credit source and the interest rate paid by small traders.

H21: There is a significant association with the type of credit source and the interest rate paid by small traders.

REVIEW OF LITERATURE

Suwendu Narayan Roy (2013-2014) in their study "Present Status of Microfinance in India". The author has done analytical research and used chi square as their tool. The outcome of the study is to know how the microfinance in India plays a major role in the development of the small traders through unorganized sector by the various sources of finance available by the small traders and which are helpful in the development of the individuals and as well as the development of economy. **Praveen Paul. J (May 2021)** in their study "Street Vendors- The forgotten group in Tamil Nadu" have showed source of income that the small vendors obtained from such as savings as the major source of working capital followed by getting capital from money lenders almost all the small vendors have a bank account. **P D Jeromi (2008)** in their study A study of "Money Lenders in Kerala February" has clearly shown that the working capital of money lenders in Kerala to analysis the based on a sample survey, the paper has estimated of deposits and credits extended by money lenders in Kerala and have brought out undesirable aspects of their working and their impact on society. **Aditya Geonka et. al. (2011)** in their paper "Money lender of microfinance" have analyzed the causes for non- convergence of per capita real GDP for majority of country pairs are an empirical issue that involves country- specific factors that render output gaps highly persistent, but we can broadly outline a few reasons for non- convergence and these includes. **Elizabeth A Demres et. al. (2018)** published by Accounting Organization and society , in their study "Linguistic tone and the small traders". They analysis Small investors' net purchasing behavior is positively related with residual tone, but bigger investors tend to sell on this signal, according to experiments. **Luca Gelsomini in their paper (2012)** publication in the journal SSRN electronic Journal "Public disclosure by small traders" This paper models strategic trading by a small potential insider, and proposes a comprehensive theory of market non-anonymity. We examine public disclosure to interpret the effects of mandatory and voluntary reports about (undertaken) trades, and form three conclusions. **E. Holmgren ET. al. (2017)** Publication in the book financial inclusion for poverty allegation in their study

“Towards inclusion through lessons from informal money lenders” the main objective of this study is to show the difference in earnings between an agriculture farmer who borrows funds from a micro financial institution and a former who doesn't borrow funds from micro financial institution. **Wassim N Shahin (1990)** Published in article World Development in their study “Unorganized loan market and monetary policy instrument” discussed that the relationship between each of the policy instrument and this rate. The findings depart in some cases from existing studies and shed more light on the relationships among policy instruments, monetary aggregates and real activity.

Research Gap

Majority of the researchers have the objective of impact made by the small traders in the development of socio economic and the problem faced by them to avail the finance from organized sector due to lack of financial literacy faced by them and how they are approaching the finance from the unorganized money lenders and they mainly focused on the high rate of interest they were paying to unorganized money lenders as compared to the organized financial institutions and banks.

LIMITATIONS OF THE STUDY

1. Respondents were not encouraged to provide accurate information about the actual borrowings, particularly from informal sources such as money lenders.
2. There could be some sampling bias.

TYPE OF RESEARCH

This research paper is consists of the working of unorganized lenders and small traders in the area of Bangalore city. This study is analytical in nature. This study will make us to understand how unorganized small traders obtain loan for their business and where they get finance from whether from unorganized money lenders or organized financial institutions.

SAMPLING METHOD

The present study employs convenience sampling non probability research techniques in the selection of small traders with in Bangalore city. In Bengaluru city there are major business areas where the small traders carry on their business. For this study the Srirampura area which is one of the major areas where small traders dwell has been chosen for this study.

SAMPLE SIZE

The sample size for this study was 100 small traders from Srirampura area which is a representative of 3200 small traders.

STATISTICAL TOOLS AND TECHNIQUES

The data is analyzed by using SPSS and Excel software. The tools used for this study are Chi-square, and correlation, Chi-square for identifying the association between variables considered for this study.

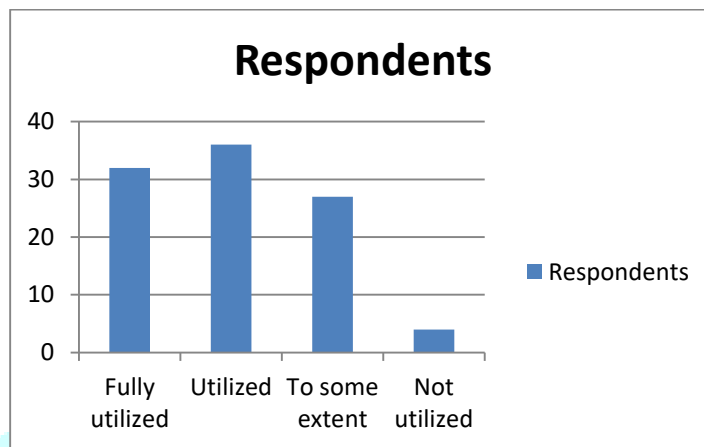
DATA ANALYSIS AND INTERPETATION:

Table 1: The table showing the proportion of utilization of loan.

Particular	Respondents
Fully utilized	32%
Utilized	36%
To some extent	27%
Not utilized	4%

Analysis:

The above table shows that the proportion of utilization of loan by the respondents 32% of the respondents are fully utilized, 36 % of respondents are utilized, 27% of the respondents are utilized to some extent, 4% of the respondents are not utilized the loan.



Graph 1: Graph showing the cut down of labor force during and after pandemic

Interpretation:

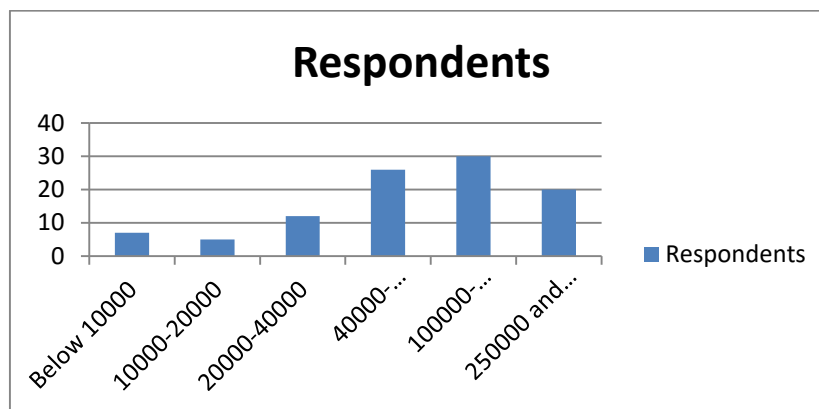
From the above graph we can interpret that the more number of people utilized their amount of loan.

Table 2: The below table shows the percentage of credit taken by respondents.

Particulars	Respondents
Below 10000	7
10000-20000	5
20000-40000	12
40000-100000	26
100000-250000	30
250000 and above	20

Analysis:

The above table shows that the credit taken by the respondents 7% of the respondents have taken below 10000, 5% of the respondents have taken between 10000-20000, 12% of the respondents have taken between 20000-40000, 26% of the population of the respondents have taken 40000-100000, 30% of the population have taken credit between 100000-250000, 20% of the population is taken credit between 20%.



Graph 2: Graph showing the percentage of the respondents availing credit

Interpretation:

From the above graph we can interpret the more number of small traders taken loan with in the range of 40000 and above. More number of respondents has taken credit limit above 40000 reasoning that they used the money for their personal and different reason to seeking loan reasoning for the requirement for the business.

Correlation: Correlation for the limit of credit taken by the respondents and proportion of utilization.

Correlations

		UP-TO WHAT LIMIT YOU TAKE CREDIT?	DO YOU THINK YOU FULL MAKE USE OF CREDIT TAKEN BY YOU?
UP-TO WHAT LIMIT YOU TAKE CREDIT?	Pearson Correlation	1	.067
	Sig. (2-tailed)		.509
	N	100	100
DO YOU THINK YOU FULL MAKE USE OF CREDIT TAKEN BY YOU?	Pearson Correlation	.067	1
	Sig. (2-tailed)	.509	
	N	100	100

Conclusion

P value = 0.66

Level of significant =0.05

The alternative hypothesis is accepted and the null hypothesis is rejected because the level of significance is greater than p value

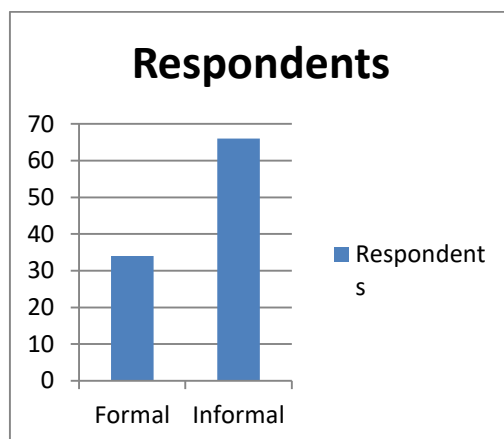
Therefore, there is a positive correlation between credit limit taken by small traders and use of credit by them.

Table 3: Table showing number of respondents who are taken loan in both formal and informal

Particulars	Respondents
Formal	31%
Informal	69%

Analysis:

The above table shows that 31% of the respondents have taken loan from the formal sector and 69% of the respondents have taken loan from informal sector.



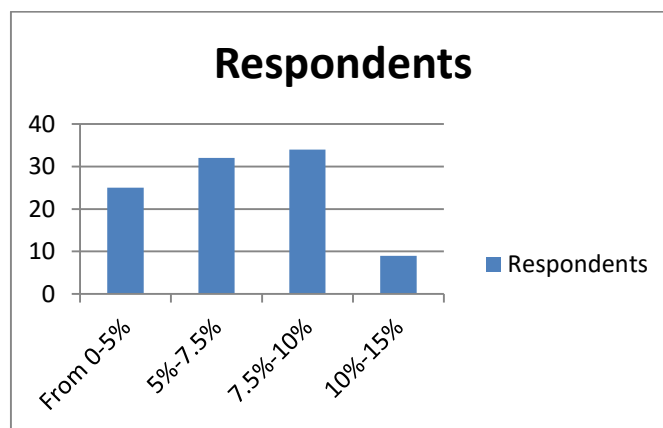
Graph 3: Graph showing the number of respondents who are taken loan from both formal and informal sector

Interpretation: From the above graph can interpret that more number of small traders taken loan informal sector than compare to formal sector. Majority of the small traders urges to take credit from informal sources due to low paper work and due to urgent requirement of money.

Table 4: The below table shows the interest rate paid on the loans availed by respondents.

Particular	Respondents
From 0-5%	25
5%-7.5%	32
7.5%-10%	34
10%-15%	9

Analysis: The above table shows that the interest rate paid on the loan availed by the respondents 25% of the respondents have paid 0-5% interest rate , 32% of the respondents have paid 5%-7.5%, 34% of the respondents have paid 7.5%-10%,9% of the population of the respondents have paid 10%-15%.



Graph 4: Graph showing the interest rate paid by the respondents

Interpretation:

From the above graph we can interpret that the more number of people have paid interest rate within the range of 7.5 %-10% since they have deferred the payments for a long time and unavailability of documentation that is mandatory for the compliance of loan.

Chi Square**Hypothesis: 2**

H0: There is no significant association with the type of credit source and the interest rate paid by small traders.

H1: There is a significant association with the type of credit source and the interest rate paid by small traders.

Case Processing Summary

	Cases					
	Valid		Missing		Total	
	N	Percent	N	Percent	N	Percent
WHICH TYPE OF CREDIT SOURCE OU USE? * WHAT IS THE INTEREST RATE PAID BY YOU ON YOR LOAN	100	100.0%	0	.0%	100	100.0%

WHICH TYPE OF CREDIT SOURCE OU USE? * WHAT IS THE INTEREST RATE PAID BY YOU ON YOR LOAN Crosstabulation

Count		WHAT IS THE INTEREST RATE PAID BY YOU ON YOR LOAN					Total
		0	FROM 0-5%	5%-7.5%	7.5%-10%	10%-15%	
WHICH TYPE OF CREDIT SOURCE OU USE?	0	0	1	0	0	0	1
	FORMAL	1	15	11	7	2	36
	INFORMAL	0	8	20	27	6	61
	3	0	1	0	0	0	1
	4	0	0	0	0	1	1
Total		1	25	31	34	9	100

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	30.025 ^a	16	.018
Likelihood Ratio	24.888	16	.072
Linear-by-Linear Association	12.713	1	.000
N of Valid Cases	100		

a. 18 cells (72.0%) have expected count less than 5. The minimum expected count is .01.

Conclusion: In the above table the chosen level of significance is 0.05 which indicates that the level of significance is greater than the p value which is .018 hence the alternative hypothesis is accepted and the null hypothesis is accepted.

SUMMARY OF FINDINGS

- A large number of both unorganized lenders and small traders engaged in lending and borrowing loans from each other in the part of research area of Srirampura, in Bengaluru city.
- Unorganized money lenders faced a problem in getting back of the loan that is given by them to small traders. In case of the small traders the repayment was delayed due to high rate of interest charged by the unorganized lenders and also lack of financial discipline.
- The study also shows that the small traders have diversified the borrowed funds for other unproductive areas rather than utilizing it for the business purpose.
- The study also reveals the level of financial knowledge possessed by the small traders is very poor.
- The level of awareness about the facilities provided by the banks or financial institutions is low.

CONCLUSION

The small traders found to be dependent on their own funds and credit from unorganized lenders for financing their own business. However, beginning of a business with a wholly owned fund means that the small trading bears the whole risk of the business. Furthermore, expanding out a business mainly on one's own fund is tough, especially for unorganized business. The majority of small trading business is run by people from economically disadvantaged backgrounds. So, if a small business pays for the entire investment out of pocket, he or she will have limited access to formal financial institutions credit and small traders not try to approach organized financial institutions due to lack of financial discipline.

Moreover, it is necessary to raise awareness about the need of raising investment with a low rate of interest and it also need to create awareness among the repayment of their loan to unorganized lender within a given period of time so that can also help both ends to sustain the trust among themselves.

SUGGESTIONS

- Small traders need to improve their financial literacy.
- Unorganized lenders need to concentrate more on the interest rate they charge on the principle amount they lend to small traders.
- To maintain consistent income streams, all financial lending organizations must improve their debt collection processes.
- Banks need to create awareness among the small traders regarding the facilities available to them.
- Small traders need to avoid of diversifying the loan amount for other reasons.

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