

Micro finance and informal sector: A study in Coastal Karnataka

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Abstract

Financial inclusion is an essential pre-condition for sustainable economic development. The process of financial inclusion has been gaining importance for the overall economic development of the country. Exclusion of the people at the bottom of the pyramid without proper financial inputs will have negative impact on the economy. Informal sector consist of units engaged in the production of goods and services with primary objectives of generating employment and income to the person concerned. Micro finance became alternative source of loans to the poor people with the goal of creating financial inclusion and equality. Informal sector constitute an important part of the Indian economy. More than 90.00 per cent of workforce belongs to this sector of the economy. Informal economy contributes more than 50.00 per cent of the national products of the Indian economy. Most of the informal sector activities are highly encouraged by the Self Help Groups in the Coastal Karnataka. Micro Finance activities through Self Help Groups play crucial role in the development of the informal sector activities.

Keywords: Informal sector, financial inclusion, Micro finance institutions

1. Introduction

Financial inclusion implies delivery of banking services at an affordable cost to the vast sections of the disadvantaged and low income groups. Financial inclusion is an essential pre-condition for sustainable economic development. The process of financial inclusion has been gaining importance for the overall economic development of the country. Exclusion of the people at the bottom of the pyramid without proper financial inputs will have negative impact on the economy.

Informal economy refers to all economic activities by workers and economic units which are not covered or inefficiently covered by formal arrangements. Their activities are excluded from the purview of the law. Informal workers are low paid with no social protection. There is absence of well-defined employer employee relationship. They do not have access to facilities like credit, production or marketing support. Informal workers are mostly unskilled and often their work is home based, isolated and vulnerable.

Micro finance is referred to as small scale financial services provided to the people who work in agriculture and allied sectors. It operates at small and micro enterprises. Micro finance provides services, work for wage and commission at the local levels both in rural and urban areas. Micro finance became alternative source of loans to the poor people with the goal of creating financial inclusion and equality. In the above context, an attempt has been made to analyse the role of micro finance institutions in supplying financial inputs to the informal sector activities for sustainable development in the study area.

2. Objectives

The main purpose of this paper is to analyse the financial inclusion of informal sector activities through the micro finance institutions. The specific objectives are as follows:

1. To highlight the nature and importance of informal sector activities
2. To analyse the role of Micro Finance Institutions in promoting micro entrepreneurial activities
3. To examine the nature of support and encouragement by Micro Finance activities for the promotion of informal sector activities in the study area.

3. Methodology

The study is based on the secondary and primary data. Secondary data are collected from the review of literature and from relevant sources. Important informal sector activities are identified in the study region. Primary data are collected by interviewing the sample respondents selected on the basis of random sampling method.

4. Nature of informal sector

Informal sector consist of units engaged in the production of goods and services with primary objectives of generating employment and income to the person concerned. These units typically operate at low level of organisation with little or no division between labour and capital as factors of production and on a small scale. Easy entry in to the activity, reliance on indigenous resources, family ownership, small scale production, labour intensive and adapted technology, skill acquired outside the formal school system, unregulated and competitive markets are the characteristics of informal sector activities.

Keith Hart (1970) in his study on Urban Ghana initiated the term informal sector. The concept was further refined by the Mission of International Labour Organisation (ILO-1972) in the study on employment situation in Kenya within the frame work of the world employment programme.

Globally the informal economy accounts for 60.0 per cent of employment in developing countries. Informal sector activities

are largely ignored, rarely supported, often regulated and sometimes actively discouraged by the Government. Many informal workers, according to the International Labour Organisation possess business acumen, creativity and innovation that could be unleashed if conditions of vulnerability and marginalisation are removed.

In India, the term Informal sector is used a synonym for unorganised sector. The National Commission for Enterprises in the Unorganised Sector (NCEUS) set up by the Government of India in September 2004 defined the Unorganised sector as follows; ‘The Unorganised or Informal sector consists of all unincorporated private enterprises owned by individuals or households engaged in sale and production of goods and services operated on a proprietary or partnership basis and with

less than 10 total workers’. It also defined Informal employment as ‘Informal worker consist of those working in the unorganised enterprises or households excluding regular workers with social security benefits and the workers in the formal sector without any employment / social security benefits provided by the employers’

5. Size of Informal Sector

Informal sector constitute an important part of the Indian economy. More than 90.00 per cent of workforce belongs to this sector of the economy. Informal economy contributes more than 50.00 per cent of the national products of the Indian economy. There is a large increase in informal workforce in India. This trend is shown in the following table: 1

Table 1: Relationship between Sector and Type of Employment, All Workers 1999-2000, 2004-05 and 2009-10

Year	Employment(Million)								
	Organized Sector			Unorganized Sector			Total		
	Formal workers	Informal workers	Total	Formal workers	Informal workers	Total	Formal Workers	Informal workers	Total
1999-2000	33.6 (62.1)	20.5 (37.9)	54.1 (100.0)	1.4 (0.4)	341.3 (99.6)	342.7 (100.0)	35.0 (8.8)	361.8 (91.2)	396.8 (100.0)
2004-05	33.5 (53.5)	29.1 (46.5)	62.6 (100.0)	1.4 (0.4)	393.5 (99.6)	394.9 (100.0)	34.9 (7.6)	422.6 (92.4)	457.5 (100.0)
2009-10	30.7 (42.2)	42.1 (57.8)	72.8 (100.0)	2.3 (0.6)	385.1 (99.4)	387.4 (100.0)	33.0 (7.2)	427.2 (92.8)	460.2 (100.0)

Source:

1. The Report on Conditions of work and Promotion of Livelihoods in Unorganized Sector, NCEUS, Government of India 2007.
2. 12th Plan Document Volume 111, Planning Commission

Of the total 460.2 million workforces during 2009-10, informal workers constitute about 427.2 millions. Formal workers constitute only 33.0 million, which comprise both organized and unorganized sectors. During 2004-05, the total workforce constitutes 457.5 millions. Of which informal workforce constitute 422.6 millions. The size of total workforce during 1999-2000 constitutes 396.8 millions. The share of informal workers during 1999-2000 was 361.8 millions. The total workforce has increased from 396.8 million to 460.2 million between 1999-2000 and 2009-10. The share of organized workers was 35.0 million during 1999-2000 which has decreased to the level of 33.0 million during 2009-10. It indicates there is a larger increase in informal workforce in India.

6. Importance of Informal Sector

The informal sector in India provides income earning opportunities for a large number of people. This sector has a crucial role in terms of employment and its contribution to the national product, savings and capital formation. Formal sector could not provide adequate employment opportunities to the working population of the country. Therefore, informal sector is considered as ultimate sector which provides employment for their subsistence and survival.

7. Micro finance

Self-help groups (SHGs) form the basic constituent unit of the micro finance movement in India. SHG is a group of five or more than five members, who pool their savings in to a fund from which they can borrow as and when necessary. The SHG members are usually poor and often women. The membership of a SHG shall not exceed the number of 20 members. The SHG is linked with a bank, rural co-operative or commercial

bank, where they maintain a group account. Over time the bank begins to lend to the group funded out of the savings generated by the group members themselves are called inter loans. It builds financial discipline and credit history that encourages banks to lend to them in certain multiples of their own savings and without any demand for collateral security.

8. Promotion of micro entrepreneurial activities

Micro finance through Self Help Groups in the grass root level mobilised rural women and expected to encourage them to involve in investment activities. There are few cases where women enterprises started micro entrepreneurial activities successfully. Micro finance institutions encourage community based micro enterprises. It helps the rural landless labourers, small farmers to take up self-employment ventures. Micro finance institutions promote savings and investment activities in rural areas. Self Help Groups encourages the members to go for compulsory regular savings which helps them to undertake investment activities at small scale. A large number of non-farm activities like tailoring, garments, pottery and several other service activities are financed through micro finance institutions. Women empowerment programme of the Government and Non-Government Organisations are supported by the Microfinance Institutions. A large number of rural non-farm activities helped the poor people to undertake self-employment ventures. Development of rural women entrepreneurship through Micro Finance Institutions has reduced the gender inequality.

9. Study in Coastal Karnataka

To examine the support and encouragement by micro finance activities through self-help groups for the informal sector activities in Coastal Karnataka, primary data are collected by

interviewing the sample respondents selected on the basis of random sampling method. Major informal sector activities such as Bell Metal, Gold smithy, Pottery, Carpentry, Rice Mill, Tailoring, Photo copy centre, Areca leaf plate making units were identified for the collection of data. The study revealed that micro finance institutions play positive role in encouraging informal sector activities in Coastal Karnataka. Details of the membership of Self Help Groups and the beneficiaries of Micro Finance is shown in table: 2

Table 2: Number of respondents in the SHGs and Beneficiaries of Micro Finance

Activities	Sample Size	Membership of SHGs (in percentage)	Beneficiaries of Micro Finance (in percentage)
Bell Metal	28	85.71	85.71
Gold Smithy	38	63.16	63.16
Pottery	40	87.50	87.50
Carpentry	39	51.28	51.28
Rice Mill	39	46.15	43.59
Tailoring	38	68.42	68.42
Photo Copy Centre	40	70.00	60.00
Areca Leaf Plate	38	78.95	78.95
Total	300	68.33	66.67

Source: Primary data

The study reveals that 68.33 per cent of the total sample respondents in the informal sector activities are the members of Self Help Groups and 66.67 per cent are the beneficiaries of the Micro finance activities of the SHGs in the Coastal Karnataka. 87.50 per cent of the respondents in Pottery, 85.71 per cent in Bell Metal, 78.95 per cent in Areca Leaf Plate making units are members and beneficiaries of Self Help Groups in the study region. Though 70.00 per cent of the respondents in Photo Copy Centres are the members of Self Help Groups, only 60.00 per cent are the beneficiaries of micro finance activities of the Self Help Groups. 68.42 per cent of the respondents in Tailoring and 51.28 per cent in Carpentry are the members and beneficiaries of Self Help Groups. 46.15 per cent of the total respondents in Rice Mill are the members of Self Help Groups and 43.59 per cent are beneficiaries of Micro Finance activities of the Self Help Groups. Most of the informal sector activities are highly encouraged by the Self Help Groups in the Coastal Karnataka. Micro Finance activities through Self Help Groups play crucial role in the development of the informal sector activities.

10. Conclusion

The informal sector in India provides income earning opportunities for a large number of people. This sector has a crucial role in terms of employment and its contribution to the national product, savings and capital formation. The study observes that micro finance activities are encouraging micro enterprises in the grass root level. Most of the micro enterprises supported by microfinance are informal in nature, indicating that microfinance encouraging informal sector activities in the grass root level. There is need to protect the traditional informal sector activities, which can be supported by the micro finance activities in a given region. From the sustainable development point of view this is important and the micro finance activities should focus on this.

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