

Problems of people from different academic backgrounds belonging to the unorganized sector who borrow from unregistered microfinance units at high interest rates: A Sociological study of Panipat city

Ms. Anita Verma

M.A. (Sociology), UGC-NET, M.Phil. Scholar, Department of Sociology, Kurukshetra University, Kurukshetra (Haryana)

ARTICLE DETAILS

Article History

Published Online: 20 February 2019

Keywords

Microfinance, Development, Microcredit, Unorganized sector, unregistered microfinance units, Snowball sampling

ABSTRACT

Microfinance institutions lead any developing country on the path of development by reaching among the disconnected people from the mainstream of the society, making them available microcredit as a short term loan on low interest rates. This research paper is based on primary data obtained from respondents working as shopkeepers, street vendors, labour class working in unorganized sector, and speculators in Panipat city, who had taken loans from persons working as unregistered microfinance units. Attempts were made to conduct a sociological analysis of their socio-economic lifestyles, considering the educational background of the respondents for research. Data was collected from 60 respondents through snowball sampling for research, who had taken loans from unorganized microfinance lenders under any circumstances, revealing many socio-economic problems faced by these people in their daily lives. The aim of the research was to highlight the functional and negative aspects of these unregistered microfinance units on the society.

1. Introduction

Microfinance institutions for citizens of all societies of the world, such as underdeveloped, developing and developed societies, have made their mark as a successful business model by solving economic difficulties related to income and employment¹. Microfinance institutions have simplified the struggle of marginalized people in society by providing them microcredit loans without collateral guarantees, creating small business formats and creating new sources of income for them². Microfinance has emerged as a powerful tool for poverty alleviation and employment generation³. In this direction, the Government of India has also ensured to accelerate the development of villages and cities by providing microcredit to a self-help group of 5 to 9 persons.

The roots of microfinance in the modern world can be traced back to the 1970s, when the government of Bangladesh began to provide microcredit through the Bangladesh Grameen Bank following the recommendation of Mohammad Yunis to bring positive vertical changes in the lives of marginalized people.⁴ According to an estimate by the World Bank, about 7000 registered microfinance institutions are providing their

services to about 16 million people today⁵. According to the CGAP (which is an advisory group for financial inclusion to help the poor) today, five hundred million families have given a new direction to their business by availing short term loans through micro credit at low interest rates.⁶

The role of microfinance in the context of Indian society began in the 1970s, when the 'cooperative bank' established in Ahmadabad district of Gujarat, by the tireless efforts of 'Self Employed Women's Association', facilitated microcredit at the lowest interest rate to unemployed women from the unorganized sector⁷.

2. Literature review:

Susy Cheston, and Lisa Kuhn(2002) point out, based on data from their draft "Empowering Women Through Microfinance," that, along with microfinance institutions in countries across Africa, Asia, and Latin America, addressing women's problems, Also played a very positive role in redressing them. Develtere (2005) underlined through his research that microfinance institutions ensure access to the public by giving short-term loans to the majority of the below-poverty-line population, and presents a significant solution to the current challenge in the forms of poverty and unemployment. Thereby, it has been largely successful in achieving the goal of "poverty alleviation" for sustainable development. Rajshri Ghosh (2007) pointed to microfinance as a mechanism to improve the status of women in Indian society and to fight poverty, which can accelerate the development of

¹Ahmeti, F. (2014). Microfinance As A Tool For Economic Development In Transitional Countries: Experience From Kosovo. *European Scientific Journal*, 10(4), 269–287.

²RAVI, S., Vikkraman, P., & Kumaravel, V. (2012). Problems on Availing Micro Finance: A Study from India. *European Journal of Economics, Finance and Administrative Sciences*,(54), 73–85.

³Khanam, D., Mohiuddin, M., Hoque, A., & Weber, O. (2018). Financing micro-entrepreneurs for poverty alleviation: a performance analysis of microfinance services offered by BRAC, ASA, and Proshika from Bangladesh. *Journal of Global Entrepreneurship Research*, 8(1), 1–17. <https://doi.org/10.1186/s40497-018-0114-6>

⁴Ferdousi, F. (2015). Impact of microfinance on sustainable entrepreneurship development. *Development Studies Research*, 2(1), 51–63. <https://doi.org/10.1080/21665095.2015.1058718>

⁵Zuru, N. L. (2016b). A Study on the Types of Microfinance Institutions in Nigeria. *Journal of Business and Management*, 2(16), 7–16. Retrieved from <https://www.mayfeb.com>

⁶Microfinance and Microcredit. (n.d.). Retrieved from <https://microfinanceinfo.com/>

⁷Anshu, & Gauba, S. K. (2013). A Literature Review of Microfinance in India. *International Journal of Management & Business Studies*, 3(2), 86–87.

any country by connecting the marginalized people with the economy. But microfinance institute has not yet made its presence among a very large public in Indian society. For this the Microfinance Institute needs to encourage needy and entrepreneurial persons, while expanding its periphery. In his research, Anurag Priyadarshie (2011), while describing the Mishap and plight of microfinance institutions in the state of Andhra Pradesh, underlined that microfinance institutions in the state did not focus on providing small amount of short-term loans while granting loans and large amount of large amount Loans granted. Those whose recovery could not be done on time and when these institutions adopted strict attitude towards their customers for getting loan, then the suicidal rate of the customers increased. Thus a large amount of money turned into non-profit assets and finally these institutions reached the verge of bankruptcy. Saikumar C. Bharamappanavara (2013) stated that microfinance institutions have identified the entrepreneurial instincts of women on one hand and made them financially strong either by providing microcredit at individual or collective level to start their startup; On the other hand, their involvement in family decision making, self-confidence in them, reducing gender discrimination and microfinance also played an important role in turning women's attention towards their socio-economic and political rights.

Shagufta Tariq and Mohi-ud-Din Sangmi (2018), in his paper, presented an example of women empowerment through microfinance institutions. They considered the participation of women in political democracy at the village level and the participation of women in decision making in the context of family and community matters, a result of the microcredit provided to women by the Institute of Microfinance.

3. Methodology

The present study draws from a universe of sixty respondents working in the unorganized sector who took a microcredit loan from an unregistered micro-finance agent. For the purpose of the research, snowball sampling technique was used to locate the respondents and data was collected from the respondents through the interview schedule. The Interview Schedule was divided into two parts. In the first part, an attempt was made to find out the socio-economic background of the respondents and in the second part, an attempt was made to find out the problems of the respondents which they had to face after taking micro-finance loan. Advance statistics techniques such as SPSS have been used to present the data in comparable form.

4. Result and Discussion

Table No-1: Education of the Respondent * Age of the Respondent

Education of the Respondent	Age of the Respondent				Total
	18-25	25-30	30-35	More than 35	
Illiterate	0	17	0	0	17
	0.0%	100.0%	0.0%	0.0%	100.0%
Class 1-5	0	0	0	7	7
	0.0%	0.0%	0.0%	100.0%	100.0%
Class 6-8	0	0	0	9	9
	0.0%	0.0%	0.0%	100.0%	100.0%
Class 9-12	7	8	3	0	18
	38.9%	44.4%	16.7%	0.0%	100.0%
Graduate or Post Graduate	0	9	0	0	9
	0.0%	100.0%	0.0%	0.0%	100.0%
Total	7	34	3	16	60
	11.7%	56.7%	5.0%	26.7%	100.0%

The above table indicates that about 28% of the total respondents who were between 25-30 years old were found illiterate. 15% of the total respondents, who were in the age group of 25- 30, were found to be educated upto graduate and post-graduate.

Table No-2: Education of the Respondent * Monthly Income of the Respondent

Education of the Respondent	Monthly Income of the Respondent			Total
	5000-7000	7000-10000	More than 10000	
Illiterate	0	17	0	17
	0.0%	100.0%	0.0%	100.0%
Class 1-5	7	0	0	7
	100.0%	0.0%	0.0%	100.0%
Class 6-8	0	0	9	9
	0.0%	0.0%	100.0%	100.0%

Class 9-12	7	11	0	18
	38.9%	61.1%	0.0%	100.0%
Graduate or Post Graduate	0	0	9	9
	0.0%	0.0%	100.0%	100.0%
Total	14	28	18	60
	23.3%	46.7%	30.0%	100.0%

The above table revealed that all illiterate respondents were found to be from 7 to 10 thousand monthly income earning category. By class 9-12, the percentage of educated respondents was found to be 30% of the total respondents, in

which the percentage of respondents earning 5 to 7 thousand and 7 to 10 thousand was found to be about 10% and 20% respectively.

Table No-3: Education of the Respondent * Nature of the Residence

Education of the Respondent	Nature of the Residence		Total
	Rental	Own house	
Illiterate	17	0	17
	100.0%	0.0%	100.0%
Class 1-5	7	0	7
	100.0%	0.0%	100.0%
Class 6-8	0	9	9
	0.0%	100.0%	100.0%
Class 9-12	11	7	18
	61.1%	38.9%	100.0%
Graduate or Post Graduate	9	0	9
	100.0%	0.0%	100.0%
Total	44	16	60
	73.3%	26.7%	100.0%

It is reflected from the above table that 73% of the total respondents were found to be living on rent. About 25% of the respondents were living in their own houses. All respondents

who were illiterate, educated up to class 1-5, educated up to class 9-12 and educated up to graduate and post graduate were found living in rented houses.

Table No-4: Education of the Respondent * Do you have Ration Card

Education of the Respondent	Do you have Ration Card		Total
	Yes	No	
Illiterate	0	17	17
	0.0%	100.0%	100.0%
Class 1-5	0	7	7
	0.0%	100.0%	100.0%
Class 6-8	9	0	9
	100.0%	0.0%	100.0%
Class 9-12	15	3	18
	83.3%	16.7%	100.0%
Graduate or Post Graduate	0	9	9
	0.0%	100.0%	100.0%
Total	24	36	60
	40.0%	60.0%	100.0%

According to the above table it can be said that 60% of the total respondents did not have the facility of ration card to ensure access to food and supplies department of a state. In

which the percentage of educated respondents till illiterate and post-graduate was found to be around 20% and 15% respectively

Only 55% of the respondents were able to open their account with an institutional bank and most of them 1/4 of the respondents were educated from class 9 to 12. Thus,

comparatively, the respondents in the state of Haryana were found to be more comfortable in opening bank accounts than in getting ration cards (Table No-5).

Table No-5: Education of the Respondent * Do you have an account in any bank

Education of the Respondent	Do you have an account in any bank		Total
	Yes	No	
Illiterate	0	17	17
	0.0%	100.0%	100.0%
Class 1-5	0	7	7
	0.0%	100.0%	100.0%
Class 6-8	9	0	9
	100.0%	0.0%	100.0%
Class 9-12	15	3	18
	83.3%	16.7%	100.0%
Graduate or Post Graduate	9	0	9
	100.0%	0.0%	100.0%
Total	33	27	60
	55.0%	45.0%	100.0%

Table No-6: Education of the Respondent * If yes, then have you ever apply for loan

Education of the Respondent	If yes, then have you ever apply for loan		Total
	Yes	No	
Illiterate	0	17	17
	0.0%	100.0%	100.0%
Class 1-5	0	7	7
	0.0%	100.0%	100.0%
Class 6-8	9	0	9
	100.0%	0.0%	100.0%
Class 9-12	7	11	18
	38.9%	61.1%	100.0%
Graduate or Post Graduate	9	0	9
	100.0%	0.0%	100.0%
Total	25	35	60
	41.7%	58.3%	100.0%

Only about 42% of the respondents were found to have applied for getting their loan (whatever form it may be), through bank, the percentage of educated respondents from class 6 to

8 and post graduate were found to be equal (15%). Research revealed that about one-third of the respondents had applied for loans from Muthoot Finance (Table No-6).

Table No-7: Education of the Respondent * For which purpose did you go to a micro-financier to take a loan?

Education of the Respondent	For which purpose did you go to a micro-financier to take a loan?			Total
	To start a start up	for to pay prior loan	Other expenses(health or education)	
Illiterate	17	0	0	17
	100.0%	0.0%	0.0%	100.0%
Class 1-5	7	0	0	7
	100.0%	0.0%	0.0%	100.0%
Class 6-8	0	9	0	9

	0.0%	100.0%	0.0%	100.0%
Class 9-12	11	0	7	18
	61.1%	0.0%	38.9%	100.0%
Graduate or Post Graduate	0	9	0	9
	0.0%	100.0%	0.0%	100.0%
Total	35	18	7	60
	58.3%	30.0%	11.7%	100.0%

The above table indicates that all illiterate respondents (about 20%) and educated respondents (about 12%) from class 1 to 5 had taken loan from micro-financier to start their

business. All the 15% of the respondent's educated upto the post-graduate had again taken loan from micro-financier to repay the loan taken earlier.

Table No-8: Education of the Respondent * At what rate of interest private Micro-Financier usually charge for any loan

Education of the Respondent	At what rate of interest private Micro-Financier usually charge for any loan			Total
	2%	4-5%	More than 5%	
Illiterate	0	0	17	17
	0.0%	0.0%	100.0%	100.0%
Class 1-5	0	7	0	7
	0.0%	100.0%	0.0%	100.0%
Class 6-8	0	0	9	9
	0.0%	0.0%	100.0%	100.0%
Class 9-12	8	3	7	18
	44.4%	16.7%	38.9%	100.0%
Graduate or Post Graduate	0	0	9	9
	0.0%	0.0%	100.0%	100.0%
Total	8	10	42	60
	13.3%	16.7%	70.0%	100.0%

Based on the above table it can be stated that 70% of the total respondents had to pay more than 5% interest for taking any microcredit short term loan from any unregistered

microfinance units. Illiterate, educated from class 6 to 8 and educated upto postgraduate, the percentage of these respondents was found to be 30%, 15% and 15% respectively.

Table No-9: Education of the Respondent * Do you have taken any loan in the duration of Demonetization

Education of the Respondent	Do you have taken any loan in the duration of Demonetization		Total
	Yes	No	
Illiterate	17	0	17
	100.0%	0.0%	100.0%
Class 1-5	7	0	7
	100.0%	0.0%	100.0%
Class 6-8	9	0	9
	100.0%	0.0%	100.0%
Class 9-12	10	8	18
	55.6%	44.4%	100.0%
Graduate or Post Graduate	9	0	9
	100.0%	0.0%	100.0%
Total	52	8	60
	86.7%	13.3%	100.0%

It is reflected from the above table that about 87% of the respondents had taken short term loans from unregistered microfinance units during demonetization, including illiterate, class 1 to 5, class 5 to 8, class 9 to 12 and graduate and post-graduate etc. The percentage of all was found to be around

30%, 12%, 15%, 17% and 15% respectively. Out of about 87% of the respondents, about 55% of the respondents had to pay 4 to 5% interest. The proportion of respondents paying interest on the same short-term loans beyond 5% per month was found to be 1/3 (Table No-10).

Table No-10: Education of the Respondent * If yes, then what rate of interest.

Education of the Respondent	If yes, then what rate of interest			Total
	4-5%	More than 5%	Not applicable	
Illiterate	17	0	0	17
	100.0%	0.0%	0.0%	100.0%
Class 1-5	7	0	0	7
	100.0%	0.0%	0.0%	100.0%
Class 6-8	0	9	0	9
	0.0%	100.0%	0.0%	100.0%
Class 9-12	0	10	8	18
	0.0%	55.6%	44.4%	100.0%
Graduate or Post Graduate	9	0	0	9
	100.0%	0.0%	0.0%	100.0%
Total	33	19	8	60
	55.0%	31.7%	13.3%	100.0%

Table No-11: Education of the Respondent * Have you ever faced any problem to pay your loan installment

Education of the Respondent	Have you ever faced any problem to pay your loan installment		Total
	Yes	No	
Illiterate	17	0	17
	100.0%	0.0%	100.0%
Class 1-5	7	0	7
	100.0%	0.0%	100.0%
Class 6-8	9	0	9
	100.0%	0.0%	100.0%
Class 9-12	18	0	18
	100.0%	0.0%	100.0%
Graduate or Post Graduate	0	9	9
	0.0%	100.0%	100.0%
Total	51	9	60
	85.0%	15.0%	100.0%

The above table revealed that 85% of the respondents who took loans from unregistered microfinance units must face difficulty in repaying the loans on time. In the respondents who

faced this problem, the share of illiterate and educated respondents from class 9 to 12 was found to be about 1/3 respectively.

Table No-12: Education of the Respondent * If yes, then which consequences you have to face

Education of the Respondent	If yes, then which consequences' you have to face				Total
	Private Micro-Financer threaten me to pay next installment on time	Penalty	Scuffle	Not Applicable	
Illiterate	0	17	0	0	17
	0.0%	100.0%	0.0%	0.0%	100.0%
Class 1-5	0	0	7	0	7

	0.0%	0.0%	100.0%	0.0%	100.0%
Class 6-8	9	0	0	0	9
	100.0%	0.0%	0.0%	0.0%	100.0%
Class 9-12	0	11	7	0	18
	0.0%	61.1%	38.9%	0.0%	100.0%
Graduate or Post Graduate	0	0	0	9	9
	0.0%	0.0%	0.0%	100.0%	100.0%
Total	9	28	14	9	60
	15.0%	46.7%	23.3%	15.0%	100.0%

Based on the above table, it can be said that about 50% of the respondents had to pay fines in case they could not pay their debts on time. The percentage of respondents experiencing a situation such as intimidation and scuffle from unregistered micro-financers was found to be 15% and 24%

respectively. Respondents, who took loans on condition of returning loan within 100 days time period, 180 days time period and 1 year time period were found to be 1/2, 1/6 and 1/3 respectively (Table No-13).

Table No-14: Education of the Respondent * Have you taken any written receipt, whenever you pay your installment

Educational level of the Respondent	Have you taken any written receipt whenever you pay your installment		Total
	Yes	No	
Illiterate	0	17	17
	0.0%	100.0%	100.0%
Class 1-5	7	0	7
	100.0%	0.0%	100.0%
Class 6-8	0	9	9
	0.0%	100.0%	100.0%
Class 9-12	8	10	18
	44.4%	55.6%	100.0%
Graduate or Post Graduate	0	9	9
	0.0%	100.0%	100.0%
Total	15	45	60
	25.0%	75.0%	100.0%

A very large proportion of the total respondents viz. 3/4 stated that their microfinance unit does not provide them any receipt in any format at the time of repayment of loan.

Shockingly, it was revealed that even educated respondents up to post-graduate had no sense of receipt from the micro-financier.

Table No-15: Education of the Respondent * As per you Microfinance loan is

Educational level of the Respondent	As per you Microfinance loan is			Total
	Helping at the time of need	create difficulties in the time of emergency	Both of them	
Illiterate	0	17	0	17
	0.0%	100.0%	0.0%	100.0%
Class 1-5	0	7	0	7
	0.0%	100.0%	0.0%	100.0%
Class 6-8	0	0	9	9
	0.0%	0.0%	100.0%	100.0%
Class 9-12	8	0	10	18
	44.4%	0.0%	55.6%	100.0%
Graduate or Post Graduate	0	0	9	9
	0.0%	0.0%	100.0%	100.0%

Total	8	24	28	60
	13.3%	40.0%	46.7%	100.0%

The above table reflected that a 2/5 proportion of total respondents considered microfinance loans, which they had taken from unregistered micro-financiers, to cause more problems at the time of emergency. About 13% of respondents rated microfinance short-term loans as positive-energy bearers at times of need.

5. Conclusion:

Based on the data obtained from the research, it can be said that about 1/3 of the total respondents were found to be illiterate who were between 25 and 30 years old. The above argument indicates that a large proportion of the youth working in the unorganized sector were found to be illiterate. Around 3/5 of the respondents working in the unorganized sector were found to be living on a monthly income of less than ₹ 10000 or ₹ 10000. Shockingly, it was found that about 3/4 of the respondents who had taken loans from unregistered micro-financiers were found living in rented houses. 3/5 respondents

were found to be suffering from lack of ration card and about 1/2 of the respondents were suffering from non-availability of account in any nationalized bank. A large section of the respondent's viz. 3/5 had approached the micro-financier to get a microcredit loan to start their business. The shocking revelation came from the fact that about 5/7 respondents were forced to pay interest at the rate of 5% per month to get microcredit loans from unregistered micro-financiers. Around 5/6 respondents were forced to get loans at higher interest rates during demonetization. For this, the respondents had to face serious consequences like fines, threats and scuffles in the event that the loan taken is not repaid on time. Amazing thing came out that even in this era of automation, during the installment payment; the respondents have to beg for receipt. In this way, these people in the unorganized sector are caught in the vicious circle of loans by taking microcredit loans from unregistered micro-financiers.

Reference

1. Bharamappanavara, S. C. (2013). Growth and Outreach of Self-Help Groups' Microcredit Models in India: A Literature Insight. *International Journal of Social and Economic Research*, 3(1), 1–14. <https://doi.org/10.5958/j.2249-6270.3.1.001>
2. Cheston, Susy and Lisa Kuhn(2002), "Empowering Women Through Microfinance", Unpublished background paper for the Micro-credit Summit 15, New York, 10-13 November 2002
3. Develtere , P., & Huybrechts, A. (2005). The Impact of Microcredit on the Poor in Bangladesh. *Alternatives: Global, Local, Political*, 30(2), 165–189. Retrieved from <https://www.jstor.org/stable/40645154>
4. Ghosh, R. (2005). Microfinance in India: A Critique. *SSRN Electronic Journal*, 1–9. <https://doi.org/10.2139/ssrn.735243>
5. Priyadarshiee, A., & Ghalib, A. K. (2011). The Andhra Pradesh Microfinance Crisis in India: Manifestation, Causal Analysis, and Regulatory Response. *SSRN Electronic Journal*, 1–14. <https://doi.org/10.2139/ssrn.1983206>
6. Tariq, S., & Sangmi, M.-D. (2018). Microfinance and Women empowerment: A Brief Review of Literature. *Pacific Business Review International*, 11(3), 77–83. Retrieved from https://www.researchgate.net/publication/329758824_Microfinance_and_Women_empowerment_A_Brief_Review_of_Literature