

UNORGANIZED SECTOR MISLEADS THE PURE ECONOMIC GROWTH OF A COUNTRY: A BRIEF STUDY OF INDIAN POOR SECTION

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ABSTRACT

The financial agencies which come under unorganized sector are not supervised by any legal authority. These agencies are pawn brokers, local money lenders, landlords, traders, indigenous bankers and many more who have no standard rules and regulations. These may be in the form of local agencies or individual. These have their own specific rules and standards which are to be followed by the borrowers. If there is any default in the transactions done, no legal authority can be approached because there is no specific written documentation (sometimes there is an agreement on the stamp paper in case if lender don't have liaison with the borrowers or any third party which the known to lenders is being the guarantor). It is a big loophole of our economy. This paper explains the unorganized financial institutions how these are cheating the poor section by imposing the high rate of interest on them. Further explains the unorganized sector and how an economy is negatively affected by these sectors and why the poor section approach to the unorganized sectors instead of organized sectors and the paper explains the recommendations and possible solutions to combat the situation.

Key words – Unorganized sector, Pawn brokers, local moneylenders, legal authority.

INTRODUCTION

Different types of organizations/institutions which facilitate financial transactions of both individual and corporate customers are called as financial intermediaries or financial institutions. These are organized and Un-organized sectors. Organized sectors are governed by some statutory or legal body or authority. They consist of the institutions like Commercial Banks, Non Banking Financial Institutions and so on. Unorganized sectors are not governed by any statutory or legal body. This sector consists of the individuals and institutions for whom there are no standardized rules and regulations governing their financial dealings. They are not under the supervision and control of RBI or any other regulatory body. This sector consists of the individuals and institutions like Pawn brokers, Local money lenders, Landlords, Traders, Indigenous bankers and many more who lend money to needy persons and institutions. Structured or organized financial markets are the suitable and pure form to achieve the growth of in an economy. There is a pure and white money circulation in the market and can be counted and taken into account but in the unorganized sector there is no calculation or

counting of the money circulated. This is not good for our economy and of course that doesn't show the clear economic growth.

OBJECTIVES

1. To highlight the issues that how borrower of poor section is taking the credit from unorganized sectors instead of the organized sectors.
2. To highlight what Initiative can be taken to confront the situation as government launched various policies.

UNORGANIZED SECTOR AND INDIAN ECONOMY

Unorganized sectors are the curse of our economy. Poor sections can't have the pure advantages of the benefits provided by the Government. They always become the aim of the local moneylenders, Zamindars or might be local jewelers by charging a high rate of interest which has very high interest rate and their own rule so that the borrowers at last can't repay that amount because of the strict rules made by them (Lenders). Borrowers (poor sections) have no chance to have money from anywhere from the

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organized sectors as there is a long documents requirement and verification process and checking the financial background by the banks but the local moneylenders knows the circumstances of the borrowers and easily avail them money as loan with high interest rates with their own-made strict rules. Many times the borrowers can't repay that much of interest with these specific strict rules of repayment in that situation they (borrower) have to sale out their property to owe the money. In this section there is a lack of literacy so that they don't actually know the pros and cons of the organized and unorganized sectors to deals with. Why the unorganized sectors are spreading in the economy? **Why the borrowers of poor sections approach to these sectors instead of the organized sectors? To answer these questions below points explain the picture of unorganized sectors in the society:**

1. Convenience is the prime thing for all the parties – Convenience is the main factor for all the parties involved in the process of lending from the unorganized resources. Everybody is happy and convenient to make the transactions because there is no legal boundations in the process, but in this deal borrowers have to pay much rate of interest that has to be decided on the spot as per the severity or situation of the borrowers and of course high risk beared by the lenders because of the default by borrower which is not in sound financial position.

2. Exists in a strong proportion of transactions in the society - These unorganized sectors exist as a strong proportion of transaction in an economy. There is a process of one individual saving into another's consumption. Lenders find out the return outlets and borrowers to offer superior and attractive return and the time of the repayment of the money.

3. There is no strict documents verification - Borrowers find themselves compelled to take easy money as loan with no document verification. Only on the basis of the identity they easily get the money so that the organized institutions sometime are not able to compete with unorganized sectors.

4. Disclosure of the information and documents – In the organized sectors there is high degree of the disclosure of documents required, danger of tax liability, some administrative hurdles takes place while in unorganized sectors there is such document verification and no tax liability, rules followed as per their convenience.

5. Gambling and Smuggling – The composition of this market is full of shady lenders, tax dodgers, smugglers and gamblers they can easily play with the black money in the market which is required for such games.

6. Transactions among Family and friends - Many of the transactions take place among the friends, relatives or family members as there is no need to verification of the documents or the tax liability but as per their convenience money can be transferred to each other.

7. Personal relation between the Borrowers and the Lenders – There is good relations on personal level and some have on the professional level. As per the consent between the two parties they can borrow and lend money on the basis of some specified rules and policies made by their own.

8. Skip better lending options due to Lack of Education/Literacy/Knowledge– Lack of education is also an important issue to have most of transactions with unorganized sectors. People don't have the proper knowledge about both the sectors (organized and unorganized) so that they can't approach the organized financial institutions.

9. Feels the security of money – Some of the people in the backward area and illiteracy prime area think the money is not safe to deposit in the bank and they much like to make the transaction with their own locality as may be friends, colleagues, family members and so on but the fact is the reverse. They don't know that without any legal boundation they are making the transactions and there is high chance of default.

10. Unawareness about the Government policies- Most of the people in this section are illiterate and not having the knowledge about the policies launched by the government which is in favor to have the benefits as easy transactions, opening the accounts in the banks and easily availability of loans.

11. Unnecessary journey and Expenses – Also people don't make the trouble to have the unnecessary expenses of journey because they have a value of the single penny so that they don't take the risk to go to the banks which is in the developed area and not a hope to avail the loan in the single go.

12. Wrong perception – Sometimes they have the wrong perception as the banks are charging high interest rate rather than the local moneylender but this information is sometimes by the local moneylenders as they (lenders) don't want to lose a customer who will avail them a high interest rate rather than the banks.

13. Villagers don't want to make the place for any other moneylenders or organized institutions – Villagers do not support to another money lending agency which is providing them money in the lesser interest rate, but they traditionally want the same lender and will pay the high interest of amount to them only.

14. Caste traditions and Customs – Casts and traditions are also the issue People don't wants to tear the curtain of cast, customs and traditions which are being followed by their elders so that they skip the chance of better opportunity to have credit.

15. Hold of lenders over the borrowers– Where there is a farmer is already in the any particular debt and if they (Farmers) attempt to come over from the particular moneylender then again they have to pay all the money which has already taken from the particular money lender. In this case another moneylender is not willing to provide money to the farmer who is already in the debt situation.

16. In case of Farmers – Money lender provides more credit to the farmers even if they (Farmers) have already in the debt situation by this particular moneylender for the crops and take the benefit from the farmers of their produces in the particular crop season. In this situation another agency or individual will not provide the credit to the farmers and hence “convenience replaced by necessity”.

So that we have seen many issues which have covered the poor section or needy borrowers in the market and taking the wrong advantage of those by having the much rate of interest and some time bid the property of the

borrowers in case they can't repay that much of loan amount with high rate of interest. It is difficult to explain that what should exactly done to combat these situations as there is a lot of secrecy in the system.

Preventive Measures in developing Un-organized sectors- Some of the major initiatives taken are as follows:

Better Education and Awareness – Literacy is the prime solution to this problem as the people will have literacy level, they must have knowledge to understand the things in better way or in the appropriate way and then people think logical and productive and definitely will grab the better opportunity and don't skip the better lending options. They would have awareness and get to know about the thing what is wrong and what is right for them and then they can approach the organized financial institutions which are safe and legal.

Prepare Less Traditional Oriented Society – The society which keeps away from customs and traditions can be the better decision maker without any boundaries of such things.

Held Awareness programs by the government or private banks itself on monthly, Quarterly basis as per the convenience – When people know about the benefits and losses of their transaction regarding the money, then they will be able to take the correct decision and pick the credit from right resources and of course invest correctly.

Launch Government Policies which are easy to access and awareness – Government needs to launch the policy for the poor sections at the remote area or villagers so that they can get easily benefit of those policies and parallel spread the information/awareness about the same as people get to know and have the benefit from it.

Less paper work – There should be lesser or minimum paper work to make the transaction in term of borrowing or lending from banks or in other financial institutions in order to have the maximum benefits.

Government needs to open the credit institutions in the villages – When people in villages get the access of credit institutions nearby them , they will be in contact of those

institutions and get to know the better lending options and would take the benefits of those further expense of journey which earlier discussed to be minimized of them.

Programs launched by Government in direction of the social security

1. National social assistance program (NSAP): This provides poor section as per the minimum national standard. There are pension, some schemes - The Indira Gandhi National Old Age Pension (IGNOAPS), Indira Gandhi National Widow Pension Scheme, Indira Gandhi National Disability Pension Scheme (IGNDPS), National Family Benefit Scheme (NFBS) . The total number of beneficiaries under all the Schemes of the Program is about 21 million.
2. Mahatma Gandhi rural employment guarantee program.
3. Food and nutrition security
4. Mid day meals in schools
5. Integrated Child development services
6. Janani suraksha Yojana
7. Janani Shishu Suraksha Karyakram
8. Janashree Bima Yojana
9. Unorganized Workers Social Security Act
10. Aam Admi Bima Yojana
11. Welfare funds
12. National security fund

Government launched above programs but there must be awareness about these programs to take the benefits of the schemes. If the people don't have the enough knowledge then they will not be able to reach at the scheme. Most of the poor sections and remote villagers facing the same problem.

CONCLUSION

We can't strictly think that the market is totally composed of shady lenders, destitute or furtive borrowers with sprinkling tax dodgers and smugglers and gamblers. Many of the transactions taking place in the markets are among relatives, friends and among business associates. NSSO (National Sample Survey Organization) – 5000 people are dying every year related to the unorganized sector lending. Mahatma Gandhi national rural guarantee act –

minimum 100 days guarantees at the rural area. Solution given in the study as Government should open up some credit institutions in the villages but it is not the solution or it is irrelevant for the situation as there is a lot of private banks would have the same problem. Real solution has been suggested in the study is to establish contact with an institutional source of funds whether it is public or private source of funds, it will create the competition and hopefully the interest rate would be decreased. If the customer are known about the alternative credit agency which gives the more relief in interest rates rather than current one and customer gets the access to get into the agency providing lesser interest rates then they have to reduce the interest rate which is currently existing in the market. Only the most efficient rural credit agent will be able to survive under such conditions and which may reduce the cost of interest which is more.

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