



Financial Management Practices Of Entrepreneurs In Informal Sector An Empirical Study

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ABSTRACT

The financial systems and financial markets of developing countries have a common feature: the dualism. This means the co-existence and operation side by side of a formal or institutional financial sector and of an informal or non-institutional financial sector. The great diversity of informal financial activities makes difficult to evaluate the actual extent of informal finance in each economy, but empirical evidence in a number of less developed countries suggests that such extent is always relevant. Many examples bear witness of vitality of informal finance in filling the gaps left by operations of formal financial intermediaries: segments of the market neglected, credit rationing pursued through non-price allocation, exorbitant transaction costs shifted off to borrowers.

The informal sector plays a significant role in the economy in terms of employment opportunities and poverty alleviation. This sector generates income-earning opportunities for a large number of people. In India, a large section of the total workforce is still in the informal sector, which contributes a sizeable portion of the country's net domestic product.

The informal sector got an inherent ability to adopt the changing economic condition, technological changes and changing customer perceptions with its inbuilt indigenous management practices.

Keywords : Entrepreneurs, Financial Management, Practices

Informal Sector Activities

Informal sector covers activities like (i) manufacturing (making house material, equipment for agriculture purpose) (ii) construction (iii) trading and repair services (iv) Hotels and restaurants (v) transport storage and communication (vi) financial intermediation (vii) real estate renting and business activities (viii) education (ix) health and social work and (x) other community, social and personal service activities (excluding domestic services). All these activities can broadly be grouped as 'financial' and 'non-financial' activities in the informal sector, wherein the financial intermediation services constitute the former while the remaining activities form the non-financial sector.

Characteristics of the Informal Sector

The characterization of the informal sector used in the resolution of the 15th International Conference of Labour Statisticians (ICLS) on statistics of employment in the informal sector, namely:

(1) The informal sector may be broadly characterized 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. These units typically operate at a low level of organisation, with little or no division between labour and capital as factors of production and on a small scale. Labour relations -where they exist - are based mostly on casual employment, kinship or personal and social relations rather than contractual arrangements with formal guarantees.

(2) Production units of the informal sector have the characteristic features of household enterprises. The fixed

and other assets used do not belong to the production units as such but to their owners. The units as such cannot engage in transactions or enter into contracts with other units, nor incur liabilities, on their own behalf. The owners have to raise the necessary finance at their own risk and are personally liable, without limit, for any debts or obligations incurred in the production process. Expenditure for production is often indistinguishable from household expenditure. Similarly, capital goods such as buildings or vehicles may be used indistinguishably for business and household purposes.

Sources of Informal Finance

The informal financial sources generally include funds available from the family or moneylenders who operate outside the legal and policy framework of banks. Apart from this, the chit fund is another form of credit source operated by groups of people for mutual benefit; but this approach has its own limitations. Credit in the informal system is usually available on tap. The loans are granted mostly without collateral and lengthy documentation formalities as the lender depends mainly on the personal knowledge of, and contact with, the borrower. However, over the years, a few NGOs have engaged themselves in activities related to community mobilization for savings and credit-related operations targeted at some groups in the rural sector.

It has been observed that with a few exceptions, most micro-finance institutions (MFIs) in India are small, region-specific and with a limited collective outreach. Except a few, most MFIs also offer a limited range of financial services beyond credit. This needs a serious policy attention in the light of the fact that in many places, especially in Indonesia and Bangladesh, MFIs operate on a larger space.

New Channels of Finance

Considering the problems faced by the rural people in getting adequate finance at a reasonable rate in a transparent manner there are two options.

Following the international experience, banks in India need to, one, develop more customised as well as flexible loan products specifically catering to the needs of this sector, and, two, develop new delivery channels for lending to the informal sector directly and indirectly. Banks can appoint some business correspondent agencies, such as NBFCs (non-banking finance companies), reputed NGOs, MFIs and cooperatives, for this.

These intermediaries can identify and disburse of small loans in the rural areas for farming or personal purposes. As these business correspondents are basically from the local areas, they can be expected to be more aware about the activities and have other relevant information of their borrowers than any bank officer. By this can be addressed the uncertainties about the quality of borrowers and of the assets. This will help banks in risk mitigation, as a bank's risk will be exposed to the business correspondents only. With proper selection of these business correspondents this risk can also be reduced significantly.

Without opening a full-fledged branch in the rural areas, banks can increase their business through this approach, which reduces the cost of operations. Simultaneously, considering the risk factors of lending to this sector, banks can charge comparatively higher interest rates and earn higher returns. Thus, bank finance to this informal sector through the above route is a win-win situation for both banks as well as the rural economy. Apart from steady flow of finance to Rural India, banks can increase their margins by higher return on assets and lower cost of operations.

Roping in Money Lenders

Considering the huge demand for funds in the informal sector, the business correspondents, in view of their existing spread, may not be sufficient to fill the gap of fund requirement in this sector. 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. Thus, considering their importance in the informal sector, moneylenders must be co-opted as a business correspondent to the banks. The interest rate to be charged and the scope of finance are to be decided by the banks.

This mechanism will bring some degree of transparency to the operations of moneylenders and simultaneously larger flow of funds to be channeled to the informal sector at a reasonable rate. If the moneylenders can be brought into the formal financial system, this is likely to avoid a social tension as well.

Needed, a new mechanism

The lack of adequate finance in the informal sector is one of the important problems in a growing and developing economy such as India.

The success of graduating from a developing to a developed economy, to some extent, depends upon the degree of integration between informal and formal sectors. Considering this and taking into account the immense contribution of the informal sector to the country's growth process, there is an urgent need for policy-makers, financial institutions and banks to take the initiative to ensure that the informal sector gets adequate finance at reasonable rates.

Developing a new financing mechanism by bringing in the informal agents/intermediaries into the finance mainstream will help the informal sector and thereby the overall economy of India.

Methodology

The research objective is to explore the management practices particularly financial practices and to capture the traditional management practices. The study is exploratory and descriptive nature. The study was conducted at Dindigul district of Tamilnadu, the total number of respondents were 50 selected randomly. So, this is the convenience sampling. The data was analysed by using percentages and averages.

Profile of the Respondents

The entrepreneurs in the informal sector are school educated persons and seem to capitalize the opportunity created by LPG. The following table explains the respondents, how they are introduced to this business.

Table 1: Introduced to this Business

Particulars	No. of Respondents	Percentage
Inherited	14	28
Advice by Parents	16	32
By Chance	10	20
Self conceived	10	20

The above table shows 32 per cent of the respondents took to business on the advice of their peers like friends and elders at home. However, 28 per cent of the respondents inherited the business and 20 per cent each choose the business by chance and conceived the business idea.

Table 2: Prior Knowledge about the their business

Options	No. of Respondents	Percentage
Yes	40	80
No	10	20

The above table shows that 80 per cent of the respondents had prior knowledge about their business. Remaining are started the business without the prior knowledge.

Table 3: Family Business

Options	No. of Respondents	Percentage
Yes	25	50
No	25	50

It was found that fifty per cent of the respondents were in to the business by way of inheritance (i.e., family business). Most of the respondents are continuing their family business. They are called as the social entrepreneur or community entrepreneurs.

Table 4: Duration of the Business

Duration	No. of Respondents	Percentage
Below 1 yr	-	0
1-3 yrs	3	6
Above 3 yrs	47	94

The above table shows that, ninety four per cent of the respondents are into the business for more than three years. Particularly, if we take the community entrepreneurs are doing business generation by generation.

Table 5: Nature of Business

Types	No. of Respondents	Percentage
Manufacturing	-	
Trading	24	48
Services	26	52

Almost all the respondents are into trading and services hence the entrepreneurs in the informal sector are shy of manufacturing activities.

Financial Analysis of Informal Sector A Study

Sources of finance

The unorganized sector entrepreneurs are not getting financial support from the formal financial institutions. Mainstream of them are depending on the informal sources like money lenders, friends and relatives etc. when they are getting support from these source and they supposed to pay high interest rate for their financing.

Table 6 : Sources of Finance

Alternatives	No. of Respondents	Percentage
Banks & Fls	5	10
Money Lenders	39	78
Friends & Relatives	6	12

Source: Questionnaire

The above table shows the various major sources of finance for the entrepreneurs in unorganized sector. They are using the money lenders are the major source for financing. Friends and relatives source are less number of entrepreneurs are using.

Importance

The government have to concentrate more in this sector, because, more than half of our national income comes from this sector only.

Income

These sector entrepreneurs are earning enough income for their family commitments and their children educations. They are expecting some more financial assistance from the government for their children's higher education.

Investments

These entrepreneurs are investing their earned income in the organized sector also some times. Majority of the

entrepreneurs are utilizing for family commitments, some of the entrepreneurs are reinvesting in the business and they are buying some furniture or necessary items for their home.

Table 7 : Choice of Investments

Particulars	No. of Respondents	Percentage
Bank Deposits	2	4
Stocks/ Shares	0	0
Jewel	2	4
Land	4	8
Reinvested in business	7	14
Family commitments	35	70

Source: Questionnaire

The above table states that majority of the entrepreneurs is in this sector doing business for their family commitments only. Minor level of the entrepreneurs is spending for some other ways.

Conclusions

The management practices of entrepreneurs in the informal sector are unique and survived the test of time. There is a need to study the management practices in the other functional areas of management of the entrepreneurs in the informal sector. The entrepreneurs in this sector are not getting finance from the formal financial institutions. They are depending on informal financial sources like money lenders and friends and relatives. Entrepreneurs in this sector are ready to transform into formal sector, if they get formal financial assistance, on par with entrepreneurs in the formal sector. From the evaluations of Indian economy the writing on the wall is clear that the informal sector is one of the backbones of the Indian economy that required is understand and investigate.

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