

# Challenges and Opportunities of Microfinancing to Street Vendors in Sivasagar District of Assam

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## ABSTRACT

Micro-financing is the tool for improving living standard of the poorest and street vendors are integral part of the informal sector who has been struggling for survival in a competitive environment This study delves into the challenges and opportunities of micro-financing for street vendors in Sivasagar District, Assam. Street vending is a prevalent livelihood, and access to micro-financing plays a crucial role in sustaining and improving the businesses of these vendors. This research aims to shed light on the specific issues street vendors face when seeking financial support and the potential benefits that micro-financing can bring to their businesses. This study also recognizes the vital role of micro-financing for street vendors in Sivasagar District. It identifies the obstacles they face and highlights the potential benefits of micro-financing, such as business growth and economic stability.

**Keywords:** Micro-financing, Informal Sector, Street Vendors

## INTRODUCTION:

Street vending is an essential yet often overlooked component of urban economies in many regions and Sivasagar District in Assam is no exception. It is a livelihood for countless individuals who set up small businesses by selling a variety of goods, from food to clothing on the streets. However, despite their vital role in the local economy, street vendors face numerous challenges in sustaining and expanding their businesses and accessing micro-financing is often a critical factor in addressing these challenges.

Microfinance is an effective intervention of various financial services like micro credit, micro insurance, transfer of money, taking of deposits etc. for upliftment of standard of living of the poorest. It is the tool for improving income levels and living standard of the poorest in rural and urban areas. The poor in the rural and urban areas do not get credit from formal financial institutions due to their inability to repay their loan in time.

Street vendors are integral part of informal sector facing many problems ranging from inadequate capital to lack of permanent space. They are the persons who offer goods and services for sell without having permanent space. They can be grouped as – (i) Stationary Street Vendors who sell goods and services from a particular place and (ii) Mobile Street Vendors who sell goods and services by moving from place to place. Both these types of street vendors are seen in the Sivasagar district of Assam.

Micro-financing emerges as a crucial tool aligning with the objectives outlined in the 11<sup>th</sup> Five Year Plan. The plan emphasised on inclusive growth. Though India's GDP has been growing, contributions of different sectors have also increased; the growth is not inclusive which create regional imbalance in the country. So, micro-finance can be treated as ways for achieving plan's objectives.

**HYPOTHESIS OF THE STUDY:**

No MFIs/Banks/NGOs come forward to provide micro finance to street vendors in Sivasagar district.

**OBJECTIVE OF THE STUDY:**

The study has been conducted to examine the various challenges and opportunities of micro-financing to street vendors and to suggest ways and means to overcome financing problems to street vendors in Sivasagar district of Assam.

**SIGNIFICANCE OF THE STUDY:**

The importance of this research lies in its potential to shed light on the unique issues faced by street vendors and how micro-financing can serve as a tool for their economic empowerment. Street vending is a common source of income for individuals who often lack access to formal financial institutions. They operate in precarious environments, facing various challenges such as changing market dynamics, weather conditions, and regulatory constraints. Micro-financing, which provides small loans and financial services to individuals excluded from traditional banking, has the potential to enhance the economic well-being of street vendors. It can empower them to invest in their businesses, diversify their product offerings and improve their living conditions. However, the success of micro-financing for street vendors depends on understanding the specific challenges they face and tailoring financial services to meet their needs.

**LIMITATIONS OF THE STUDY:**

We have made a humble attempt to highlight the challenges of micro-financing to street vendors in Sivasagar district of Assam. This informal sector is struggling for survival in a competitive environment. These street vendors are maintaining their family with meagre income earned from their business. In the course of the study we have experienced many problems. There is no formal record about street vendors with any authority in the study area. Some street vendors have denied to provide information about their business and many others have no time to provide information to the researchers as they are busy with their customers.

**METHODOLOGY OF THE STUDY:**

Primary data are collected from field survey using schedule method, direct personal interview method. While collecting the primary data, 40 nos (80% of total population) sample street vendors were selected from the population of about 500 street vendors on the basis of convenience sampling method. Direct personal interview method also adopted for collecting primary data. Data are analysed with the help of simple statistical tools and techniques like table, percentage etc. Secondary data are collected from various secondary sources like books, journals, internet etc.

**Review of Related Literature:**

Osuwagu et al (2021) delves into the specific case of Nigeria, investigating the profound influence of microfinance institutions on the informal sector of its economy. The research employs both descriptive analysis and the Fully Modified Ordinary Least Squares (FMOLS) model to comprehensively assess the statistical relationship between the average monthly borrowing amount and various explanatory variables. The study identifies the gender of the entrepreneur as a pivotal factor influencing borrowing behaviour. Additionally, the research sheds light on the intricate relationship between the degree of borrowing and monthly household expenses of the borrowers.

Nakisani & Chicho (2013) suggests that the government and relevant stakeholders should gain a comprehensive understanding of the challenges faced by street food vendors and formulate interventions to support their survival, growth, and competitiveness in a dynamic business environment. The study recommends legal recognition of street food vending and suggests that specific legislation should be developed to promote and regulate the business in Botswana, providing valuable insights for policy makers.

Ojo(2009) contributes to the ongoing discourse on the role of microfinance institutions in fostering entrepreneurship and economic development, particularly in the context of Nigeria's challenging economic environment.

Bateman(2009) discusses the positioning of microfinance as a pivotal strategy for poverty reduction and local economic and social development in both developing and transition economies. The authors suggest asserting that while the microfinance model may yield positive short-term outcomes for some entrepreneurial individuals, its long-term impact on aggregate development is uncertain. They argue that microfinance might pose a significant institutional barrier to sustainable local economic and social development, hindering long-term poverty reduction. Furthermore, the authors suggest that the current emphasis on microfinance in development policy is closely tied to its alignment with the neoliberal/globalisation agenda.

Saha(2011) focusses on the intricate aspects of the vendors' "working life" in Mumbai. The exploration encompasses various dimensions such as their financial circumstances, the extent of indebtedness, the obligatory bribes entailed to sustain their market presence, working hours, issues related to public space utilization, and the legal intricacies surrounding their activities. The study reveals the vendors' reliance on borrowing from moneylenders not only for economic endeavours but also for social security purposes. The absence of safety and security at their workplaces is another critical issue, with vendors contending with persistent harassment from local authorities. The cumulative effect of extensive rent-seeking by these authorities further exacerbates the challenging working environment and economic deprivation faced by street vendors.

**MICRO-FINANCING TO STREET VENDORS:**

We have used schedule method and direct personal interview method for collecting primary data in the study area. The sample street vendors revealed that they did not get financial assistance from any MFI, banks, NGO etc for their business. The following table shows various sources of funds for their business:

**Table 1: Sources of Funds to Street Vendors**

Sources of Funds	No. of Sample Street Vendors (figures in bracket indicate percentage to total)
1. Own Fund	23 (57.5%)
2. Private Money Lender	5 (12.5%)
3. Borrowed from Friends & Relatives	7 (17.5%)
4. From MFI/Banks/NGO	0 (0%)
5. Others	5 (12.5%)
Total	40 (100%)

Source: Field Survey

The table indicates that 23 nos out of 40 sample street vendors (57.5%) manage funds from own source to finance their street vending businesses which is the most significant source of all the funds. This is due to

fact that the street vendors are micro entrepreneurs and their investment is low as compared to other entrepreneurs. Some street vendors revealed that outsiders (other sources of funds) were not interested to lend to the street vendors.

The private money lenders represent 5 nos of sample vendors (12.5%) of total sample vendors. This indicates that the street vendors do not desire to take loans for their business due to reasons like high rate of interest.

7 out of 40 street vendors (17.5%) borrow funds from friends and relatives. This source of funds is higher than private money lender and other sources. This is a common practice as borrowing from friends and family can often be more flexible and cost effective option compared to formal sectors. It reveals that the street vendors get funds from their relatives and friends like father, brother etc. as many of them are encouraged to do business by their relatives.

The funds from Micro Finance Institutions/Banks/NGOs are nil (0%). This indicates that no bank/MFI/NGO etc. have touched the deprived sector in Assam particularly in Sivasagar district. A few organisations like SEWA (Self Employed Women Association) in Ahmedabad has been taking initiative to provide micro-credit by opening SEWA Bank and other services like micro insurance, pension etc. However, in Assam there is no such type of organisation to take initiative to provide financial and other assistance. Street vendors in Assam particularly in Sivasagar district do not cover by micro finance schemes of commercial banks/Regional Rural Banks/Co-operative banks/Micro Finance Institutions/NGOs etc.

Lastly, the other source represents 5 nos sample street vendors (12.5%) of total sample of street vendors. It includes the funds provided from employers who employed street vendors on the commission/margin basis. The study revealed that a significant number of street vendors particularly *pheriwallas* operate by selling their goods on commission/margin basis. Under this arrangement, their employers supply the entire capital required for conducting the business, relieving street vendors of the need to secure their own funds. This means that these street vendors are not burdened with the capital requirements of their businesses.

**INVESTMENT PATTERN OF SAMPLE STREET VENDORS:**

**Table 2: Investment Pattern of Sample Street Vendors**

Capital Requirement	No of Sample Street Vendors (figure in bracket indicate percentage to total)
1. Below Rs. 5,000/-	25 (62.5%)
2. Rs. 5,000 to Rs. 10,000/-	8 (20%)
3. Above Rs. 10,000/-	7 (17.5%)
Total	40 (100%)

Source: Field Survey

The table 2 provides information on the investment pattern of the sample street vendors in Sivasagar district of Assam, specifically in terms of their capital requirements.

The majority of the sample street vendors, 25 out of 40 (62.5%), have a capital requirement of below Rs. 5,000. This is because the tiny vendors need a very low level of initial investment for their business. This suggests that a significant portion of street vendors operate with relatively low initial capital, which could be indicative of smaller-scale or less capital-intensive businesses.

A smaller proportion, 8 out of 40 street vendors (20%), falls within the capital range of Rs. 5,000 to Rs. 10,000. This category likely represents vendors with slightly larger businesses or those who require more

capital for inventory, equipment, or other business needs. In the last category requiring capital ‘Above Rs. 10,000/-’ there are 7 sample street vendors, representing 17.5% of the total sample. This percentage is notably lower compared to the other two categories of capital requirements. This distinction is significant and provides valuable insights into the distribution of capital needs among the surveyed street vendors. This data reveals that the capital required to initiate a street vending business is relatively low when compared to other small-scale enterprises. This presents an opportunity for banks and Micro Finance Institutions (MFIs) to extend financial services to this informal sector, as street vending can be a highly profitable business than other types of micro-businesses. The primary reasons for the low capital requirements in street vending are as follows:

1. Street vendors typically do not need to make significant investments in fixed assets. They often rent or hire pushcarts, bicycles, or other essential equipment on a daily basis. This significantly reduces the upfront capital investment required to start the business.
2. Their primary expenditure is on the day-to-day purchase of goods, such as fruits, vegetables, snacks, or other items for resale. These expenses are generally manageable and don't necessitate a large initial outlay of funds.
3. If in the case of rickshaws used for vending hired by the vendors, the vendors only need to pay taxes to municipal authorities. This means that they do not have to bear the full costs associated with ownership, maintenance, and licenses for these vehicles.

#### **CHALLENGES FACED BY SAMPLE STREET VENDORS:**

During the course of our study we identified several challenges faced by street vendors which are as follows:

1. **Inadequate Financial Assistance:** It was evident from our field survey that the street vendors (represented as 0% finance from banks) do not receive the necessary financial assistance from banks or Micro Finance Institutions. Financial institutions do not extend their support to these tiny street vendors which pose a significant challenge for their businesses.
2. **Low Level of Own Resources:** Our study revealed that only a small percentage of street vendors i.e. 10% (2 out of 40) have bank account. In contrast the majority of street vendors, 90% (38 out of 40) do not possess bank accounts. As the income of the street vendors is very low and fluctuating, it becomes challenging for them to save or accumulate capital.
3. **Low Access to Financial Services:** The street vendors face limited or no access to the financial services offered by banks/MFI. This is primarily due to the formalities and requirements imposed by these institutions which can be difficult for street vendors to meet.
4. **Low Level of Capital Formation:** The income of street vendors is very low and thereby saving and capital formation is also low. This indicates less or no capital formation of street vendors. They struggle to save and accumulate the capital needed for their businesses to grow and thrive.
5. **High Risks:** Lending to the informal sector, such as street vendors, is considered highly risky for banks/MFIs. The street vendors often have a low capacity to bear financial risks and their businesses may be vulnerable to various economic and environmental factors. This perceived riskiness further hinders their access to financial services and support.
6. **Income Variability:** Street vendors typically experience fluctuating and unpredictable income. This variability can make it challenging to budget, save, and plan for their financial needs.

7. **Lack of Financial Literacy:** Many street vendors have limited financial literacy which can hinder their ability to manage finances effectively, understand loans or credit and make financial decisions.
8. **Informal Credit Source:** Many street vendors may have limited financial literacy, which can hinder their ability to manage finances effectively, understand loans or credit, and make informed financial decisions
9. **Cash Dependent Operations:** Street vending is a predominantly cash-based business, which expose vendors to security risks and make it challenging to track and manage finances effectively.
10. **Inadequate Record Keeping:** Poor record-keeping practices impede their ability to monitor business performance, plan for taxes, and access credit or financial assistance
11. **Lack of Insurance:** Street vendors often lack access to insurance coverage, leaving them vulnerable to financial losses due to accidents, theft, or natural disasters
12. **Regulatory and Licensing Costs:** Street vendors face additional financial burdens in the form of licensing fees, permits, and bribes to authorities, which eat their profits
13. **Market Volatility:** Street vendors are exposed to market volatility and changes in consumer preferences, which affect their sales and profits
14. **Limited Access to Savings and Investment Opportunities:** Street vendors often struggle to find suitable savings or investment opportunities to grow their capital over time
15. **Lack of Retirement Planning:** Street vendors often lack retirement savings and pensions, leaving them financially vulnerable in their later years.
16. **High Competition:** The competitive nature of street vending lead to pricing pressures, reducing profit margins and the ability to save.

#### **OPPORTUNITIES:**

Micro financing can provide significant opportunities to street vendors by addressing some of the common challenges they face. Here are the opportunities that micro financing can offer to street vendors:

1. **ACCESS TO CAPITAL:** Micro financing provides street vendors with access to small loans or credit that they might not be able to obtain from traditional financial institutions. This capital can be used for various purposes, such as expanding their inventory, upgrading equipment, or investing in their business.
2. **BUSINESS GROWTH:** Street vendors can use micro loans to expand their operations, introduce new product lines, or set up additional vending locations. This can lead to increased sales and profitability.
3. **RISK MITIGATION:** Micro financing can help street vendors mitigate financial risks. They can use loans to purchase insurance coverage or establish emergency funds to cope with unforeseen events, such as equipment breakdowns or adverse weather conditions.
4. **DIVERSIFICATION:** Street vendors can diversify their businesses with the help of micro financing. They can explore new markets, offer new products or services, and cater to a broader customer base.
5. **IMPROVEMENT OF EQUIPMENT AND INFRASTRUCTURE:** Micro loans can be used to upgrade equipment and infrastructure. For example, vendors can invest in better cooking equipment, more comfortable stalls or improved signage, which can enhance the customer experience and increase sales.
6. **TRAINING AND SKILL DEVELOPMENT:** Micro financing institutions often offer training and support services to borrowers. Street vendors can benefit from training programs that focus on business

management, financial literacy and marketing strategies to help them run their businesses more effectively.

7. **STABILIZING INCOME:** Micro financing can help street vendors stabilize their income. With access to capital, they can maintain consistent product availability, even during lean periods and reduce income volatility.
8. **EMPOWERMENT:** Micro financing empowers street vendors by giving them more control over their businesses and financial decisions. This increased autonomy can boost their self-esteem and sense of agency.
9. **COMMUNITY DEVELOPMENT:** When street vendors access microfinance, it can contribute to the economic development of the local community. Increased business activity can lead to more job opportunities and higher incomes for those involved in street vending.
10. **FINANCIAL INCLUSION:** Microfinance institutions often serve underserved and marginalized populations. By providing financial services to street vendors, they contribute to greater financial inclusion, enabling these individuals to build credit histories and access other financial services.

While micro financing offers several opportunities to street vendors, it's important to ensure that the loans are affordable and come with reasonable interest rates. Additionally, financial literacy and business training should be part of the microfinance programs to help street vendors make informed decisions about their finances and business operations.

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### **SUGGESTIONS:**

To address the challenges faced by street vendors it is essential to improve their financial stability and livelihoods. It requires a multi-faceted approach involving government, financial institutions, non-governmental organizations and the vendors themselves. By addressing these challenges, street vendors can enjoy greater financial security and improve their overall economic well-being.

1. **Financial Inclusion Programs:** Governments and financial institutions should develop financial inclusion programs for street vendors. These programs could offer accessible and affordable financial services, such as savings accounts and small loans, specifically designed for this sector
2. **Financial Literacy Training:** Provide financial education and literacy programs to street vendors to enhance their ability to manage finances effectively, understand loans, and make informed financial decisions.
3. **Micro Finance Initiatives:** Establish microfinance initiatives tailored to the needs of street vendors. These initiatives can offer small loans with reasonable interest rates, enabling vendors to invest in their businesses.
4. **Digital Payments:** Encourage the adoption of digital payment solutions among street vendors to reduce the risks associated with cash-based operations and improve financial record-keeping.
5. **Credit Cooperatives:** Facilitate the creation of credit cooperatives or self-help groups among street vendors, allowing them to pool resources and access credit collectively.
6. **Insurance Programs:** Develop affordable insurance programs that cover the specific risks faced by street vendors, such as theft, accidents, and natural disasters.
7. **Streamlined Regulations:** Simplify and streamline the licensing and regulatory requirements for street vending to reduce the financial burden of permits and fees.

8. Market Information Services: Provide street vendors with access to market information and trends to help them adapt to changing consumer preferences and market volatility.
9. Savings Programs: Promote savings programs that encourage street vendors to set aside a portion of their earnings for emergencies, future investments, and retirement.
10. Government Programs: Governments can offer direct financial assistance or grants to support street vendors in times of economic distress or emergencies.
11. Business Development Services: Offer training and support services to help street vendors improve their business management, product diversification, and marketing skills.
12. Supportive Policies: Advocate for policies that protect the rights of street vendors and create an enabling environment for their businesses to thrive.
13. Peer Learning Networks: Facilitate peer learning networks where street vendors can share experiences, best practices, and support each other in overcoming financial challenges.
14. Access to Formal Banking: Promote financial inclusion by encouraging street vendors to open bank accounts. Financial institutions can create simplified account options with lower minimum balances.
15. Community Savings and Loan Groups: Encourage the formation of community-based savings and loan groups that allow street vendors to access loans at reasonable terms within their communities.
16. Promotion of Comparative Model: Encourage street vendors to form cooperatives to collectively address financial challenges, access credit, and negotiate better deals with suppliers.

## CONCLUSION:

Street vending plays a vital role in the local economy and in providing livelihoods for many individuals, but it is clear that street vendors face a myriad of financial challenges. These challenges include limited access to formal financial services, inadequate capital resources, low financial literacy, and high risk perception by traditional financial institutions. However, the prospects for micro financing in this sector are promising. Microfinance initiatives tailored to the unique needs of street vendors can provide a lifeline for these entrepreneurs, enabling them to access affordable credit, improve their businesses, and achieve greater financial stability. Digital payment solutions and financial literacy programs can further enhance their financial management skills and reduce the dependence on informal credit sources. It is vital for stakeholders, including government agencies, financial institutions, NGOs, and the street vendors themselves, to collaborate in addressing these challenges and harnessing the opportunities presented by microfinance. By doing so, we can empower street vendors, enhance their financial well-being, contribute to the overall economic and social development of the region.

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