



Informal credit systems and women traders in Manipur: Structure, accessibility, and economic implications

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Abstract

This study explores the working structure of informal microfinance, including daily collection finance and its economic implication on women traders in Manipur. The study aims to understand the operational mechanism of informal lending systems and the reason for their popularity among the women traders in Manipur despite their high rate of interest. Primary data were collected from 120 women traders of different market location, and members of ROSCAs (Rotating Savings and Credit Associations) based microfinance institute members, using different structured questionnaires. The findings show that most of the client of informal source of credit are satisfied with the services despite its higher cost. Loans from informal source may keep their business afloat but it is unlikely that there will be creation of substantial assets because of higher rate of interest. The study also finds that lack of access to formal sources makes this the go-to source of fund for these women traders. The study concludes that the informal source, especially the daily collection finance is the main source of funds for women engaged in small scale trading activities, but greater financial inclusion and access to suitable formal credit source with interest rate similar to that of informal source are necessary to improve the financial well-being of women traders.

Keywords: Informal finance, women traders, daily collection finance, women market, financial inclusion

Introduction

Microfinance is generally considered as those loans which are given to those people who are poor and marginalised. So, MFIs (Micro Finance Institutes) loans are specially seen as tools or means for financial inclusion and developmental tools. However, Microfinance doesn't necessary always lead to development of a society. Rather than promoting those development, sometimes, it may cause burdens on the borrower who are already in a bad financial position.

This unintended debt trap, which affects both the lender and borrower, can be largely attributed to the types of MFIs- Formal and Informal, their working structure. Hammill *et al.* (2008) and Thrikawala *et al.* (2013) ^[12] highlight the important role of informal microfinance in supporting low-income individuals who often struggle to access services from formal banks. Through small loans and savings opportunities, these arrangements help meet the financial needs of people who are typically excluded from the conventional banking system. Similarly, Owusu *et al.* (2013) ^[9] explain that informal financial systems generally operate outside the formal regulatory framework and rely largely on community trust and social relationships.

The theoretical foundation for understanding formal financial systems can be traced to Diamond (1984), who developed the delegated monitoring theory of financial intermediation. This theory explains how financial institutions act as intermediaries between savers and borrowers, reducing information gaps and monitoring the use of funds. Building on this perspective, Berger and Udell (1998) ^[2] examined how financial institutions use different lending approaches to address information problems and improve access to credit. Unlike formal finance, which depends on regulated institutions to channel funds, informal finance relies more on personal networks, community

groups, and direct financial relationships within local communities.

Informal lending arrangement often operate without formal legal contracts. Kandori (1992), Udry (1994), and Straub (2005) ^[5, 14, 15] found that these deals rely on self-enforcing agreements. Lenders do not go to court. They use social ties, community pressure, and the borrower's reputation to get repayment. Sometimes they use force or coercion.

Despite their vital role and popularity among petty women traders in Manipur, informal finance institutions are understudied, which undermines their development. Although there is literature on formal microfinance and SHGs in Northeast India, there is limited evidence on the operational framework and economic implications of ROSCA-based lending and daily collection finance among women traders in Manipur. So, the objective of this paper is to understand the nature and working structure of the two most prominent informal microfinance source such as ROSCA based microfinance and daily collection finance. This paper will explore the working structure of such lending groups, reason of its popularity among the petty women traders of Manipur and the implication of relying on such sources of funds.

Literature review

For small enterprises and low-income households, access to credit can mean the difference between getting by and growing. Many people cannot access formal banks because of strict documentation, collateral requirements, or long approval times. Informal finance fills that gap.

Formal institutions evaluate borrowers, monitor loans, and reduce risk (Berger and Udell, 1998^[2]; Diamond, 1984). Informal lenders rely on personal relationships, trust, and local knowledge, where reputation and community ties often

substitute for contracts. Research shows these arrangements persist because social obligations and mutual trust enforce repayment; in close-knit communities, fear of reputational loss is a strong incentive to repay (Udry, 1994; Kandori, 1992) [5, 15]. Rotating Savings and Credit Associations (ROSCAs) are a common informal mechanism: members regularly contribute a fixed amount and take turns receiving the pooled fund. ROSCAs are popular because they are simple, flexible, and accessible to people excluded from formal banking. Researchers highlight that ROSCAs function as social institutions that build trust and cooperation; their success depends on group cohesion and accountability (Ardener, 1964; Bouman, 1995). For small traders, ROSCAs are often a dependable source of working capital.

Microfinance is frequently presented as a way to empower women, helping them start businesses, increase household income, and gain financial decision-making power (Kabeer, 2001). Empirical evidence suggests microfinance can improve women's economic participation. But critics warn that credit alone is not a cure-all: high interest rates, short repayment schedules, and repeated borrowing can create stress and deepen vulnerability (Bateman, 2010; Karim, 2011).

Petty traders and market vendors often prioritize speed and flexibility over cost. Across South Asia and Africa, traders favour informal lenders because loans are quick, require no collateral, and involve minimal paperwork. Even when interest rates are higher, the convenience makes informal finance essential for daily operations. Women traders, in particular, depend on small, rapid loans to buy stock, manage cash flow, or handle emergencies.

Despite the importance of informal finance for women traders in Manipur, research on ROSCAs and daily collection systems is scarce. Most studies focus on formal microfinance or self-help groups. This paper examines the structure, practices, and implications of the informal mechanisms widely used by women traders in Manipur.

Methodology

This study is based on primary data collected from women traders in Manipur who regularly use informal microfinance. The research was carried out in three major markets in Imphal: Ema Keithel (Khwairamband Bazaar), Lamlong Bazaar, and Wangkhei Keithel, where informal lending is common.

Data were gathered from 120 women traders through purposive sampling. A structured questionnaire was used to collect data from the respondents who had borrowed from informal sources such as ROSCA groups and daily collection finance institutions. Members of ROSCA-based lending groups were also interviewed to understand their working structure. The study followed a descriptive and exploratory design. Alongside the survey, field observations and personal interactions were used to understand the social ties, trust, and repayment practices that keep these systems running.

Profile of Women traders

Demographic and household information.

Majority of the women traders are elders, with an average age of 60 years. They are engaged in buying and reselling of goods such as fruits, fish, fabric, vegetables, ritual items, local crafts, etc. Their incomes vary a lot with some earning

very little, while others make a more comfortable living. The average income of the respondent is approximately ₹15,000 a month. Families are fairly big, with just over five members on average. Taken together, this shows a group of traders who are generally older, carry heavy family responsibilities, and live with uneven income levels. These realities help explain why quick and flexible credit remains so important in their everyday lives.

Table 1: Demographic profile of the respondents

| Attribute | Minimum | Maximum | Average |
|------------------------------|---------|---------|---------|
| Average age (Year) | 42 | 77 | 60 |
| Income (Rs.) | 3000 | 35000 | 15000 |
| Average household size (No.) | 2 | 10 | 5.28 |

Financial inclusion

The statistics demonstrate that all 120 respondents, or 100%, have a bank account and an Aadhaar card. This suggests that government efforts to expand access to formal banking services and identification systems have been largely successful among the surveyed women traders.

Table 2: Access to financial instruments

| Financial instrument | Bank Account | PAN | Aadhaar Card | ATM | UPI Payment |
|----------------------|--------------|-----|--------------|-----|-------------|
| No. | 120 | 51 | 120 | 60 | 17 |
| Percentage | 100 | 42 | 100 | 50 | 14 |

However, ownership of other financial instruments is comparatively lower. Only 42 % of respondents possess a PAN card, which may limit their engagement with formal financial and taxation systems. Similarly, only half of the respondents (50%) have an ATM card, indicating that many account holders may still rely on over-the-counter banking transactions rather than digital or self-service banking facilities.

The adoption of digital payment systems is particularly low, with only 14% of respondents using UPI. This suggests limited participation in digital financial services despite universal bank account ownership. Factors such as low digital literacy, lack of smartphones, poor internet access, or preference for cash transactions may contribute to this situation.

Overall, the findings indicate that while basic financial inclusion has been achieved, deeper financial inclusion in terms of digital banking and broader use of financial services remains limited. This gap may partly explain the continued dependence of women traders on informal financial arrangements for meeting their credit needs.

Source of funds

Daily finance is the most used source of credit among the respondents. It was used by 93(78%) women traders.

Table 3: Fund source of women traders

| | Formal Source | SHG | Informal MFI | Daily Finance |
|--------|---------------|-------|--------------|---------------|
| No.(%) | 39(33%) | 8(7%) | 16(14%) | 93(78%) |

Formal sources were used by 33% of the respondents, but they are also client of daily collection finance. This shows that many women traders still do not access regular bank credit and those who have also borrow from informal source owing to its convenience. SHGs were used by only 7%,

while ROSCA based informal microfinance groups were used by 14%.

Operational Structure of Informal MFIs and Daily Collection Finance

ROSCA based MFIs

A very popular form of informal MFIs in Manipur is the ROSCA based MFIs. It is considered as ROSCA based because its pool amount is contributed by the members of the group. But a key difference with the traditional ROSCA is that the organization lends out money from the pool amount to people who aren't its members. Some of the key aspects of such ROSCA based informal MFIs are briefly summarised below:

▪ **Formation and membership structure**

These groups are typically formed with 7 to 20 members, usually from same locality, market area, or social circle. Rather than formal eligibility criteria, membership is based familiarity, previous association, and mutual trust. Client who avail loan from the group are brought by the members. The responsibility of timely payment of the EMIs (Equated Monthly Installments) of the client is on the member who brought the client.

As the formal credit appraisal and formal documentation are replaced by mutual trust, the successful operation of such organization are largely dependent on ability and reputations of the members of the organization.

▪ **Fund mobilization and credit disbursement**

Each member of the group contributes a fixed amount on monthly basis for a particular period. The contribution of the members will be fixed during a meeting of the members. For instance, they will contribute Rs.20000 every month for one year. If there is 10 members, the corpus after the first month will be Rs.2 lakhs and it will be 24 lakhs after 12 months. However, the members will start lending out to client from the 1st month from the corpus amount of Rs.2 lakhs. The incoming interest will be deposited in the corpus amount.

The loan amount generally ranges from Rs.10000 to 2 lakhs, depending on the size of the corpus. Loans are given through the member on a particular date of a month. The responsibility of the repayment and risk will be on the members who brings in the client. There is no written contract or collateral requirement other than some basic information like *Aadhaar* card, lending decision is socially negotiated among the group members. However, to minimize the risk, the group will try to lend the money through as many members as possible.

▪ **Credit recovery mechanism and operational practices**

Even though the organization is informal of nature, they follow a very defined pattern of repayment. The repayments are made in fortnightly EMI structure over a loan duration of six months. The group also will have a meeting every fortnight at which they will bring the instalment from their clients and deposit it to the group's pool after which they can make arrangement for their new clients.

▪ **Interest and Loan cost**

The interest rate charge by such organization is around 40 percent per annum which is higher than the rate charge by

formal organization which is around 25%. The high rate of interest is due to lack of regulatory authority and compensation to perceived risk. However, borrowers often do not feel that the interest rate is very high because the loan is repaid through bimonthly EMIs, where the principal and interest are paid together in small instalments.

▪ **Default and risk management**

Risk management of such organization are shaped by social enforcement, rather than institutional mechanism. The primary responsibility is with the member through which the loan was sanctioned to the client. In case of consistent default, as last resort the group resort to collective action where all the members of the group visit the client, applying social pressure to recover the loan amount. This method is effective, especially for a closely knit society, where reputation and social status are given utmost importance.

Daily Collection Finance in Manipur

Daily collection finance is one of the most prevalent forms of informal microfinance among street vendors, traders, especially with the petty women traders who doesn't have capital and depend on the rapid cash turnover. Despite its popularity and pervasive nature and high interest rate, it is entirely outside the purview of the regulating authority. Lending capital are controlled by group of individuals whose number can range from 2 to 10 and the transaction are governed by verbal or informal agreement rather than written contracts. The absence of documentation, regulating agency, credit appraisal characterizes its informal nature but at the same time makes it flexible and fast but with a high interest rates.

▪ **Credit disbursement mechanism**

The access to loan from the daily collection finance is based on personal familiarity and social reputations. Borrowers are typically introduced through existing local and social contacts. There is no formal way of credit appraisal mechanism but are replaced by trust and local peer opinion. This informal method allows rapid disbursement of loans which makes them very popular among women traders, who are mostly outside the formal financial structure. However, access is not universal. Women traders who lack strong social networks, are new to market spaces, or have previously defaulted may find it difficult to enter such arrangements, making the system selectively inclusive.

▪ **Loan Size and purpose**

Loan size of daily collection finance are small and short term, reflecting the use as working capital or emergency finance rather than investment capital. From the field data it is found that the loan generally ranges from Rs.10000 to Rs.50000 with average amount at Rs.23000.

The loans are primarily used for purchasing daily stock, manage operating expenses, and to meet emergency shortage of credit.

▪ **Cost of borrowing or interest rate and Recovery or risk management**

The interest rate daily collection is exceptionally very high for daily collection finance. For instance, for a principal amount of Rs.10000, a payment of Rs.200 per day is made for 60 days, making the interest rate 120% per annum which is much higher than the formal source with around 25%.

The agents will go for daily collection from the client from their stall making it convenient for the client but at the same the client are also compelled to pay up despite difficulties as they are in a tightly knit market and neighborhood communities where social reputation and relationship are highly valued.

Women traders’ preference to High-Cost Informal Finance

To understand why women trader go for informal finance source, the study analysed the working structure of the informal microfinance: ROSCA based and daily collection finance. As daily collection finance is the most common source among women traders, satisfaction level of various aspect of daily collection finance i.e. with respect to information provided by the creditor, procedure of availing credit, time to access credit, loan amount and requirement, credit repayment duration are measured using Likert scale and its implications are sum up in Table 4:

Table 4: Perceived satisfaction level of client of Daily collection finance.

| Sl. no. | Perceived satisfaction | Avg. Likert score (out of 5 points) |
|---------|---|-------------------------------------|
| 1 | Adequate Information provided by creditor | 3.6 |
| 2 | Procedure for availing credit | 4.2 |
| 3 | Time to access credit is less & reasonable | 3.8 |
| 4 | Credit received is enough to meet the requirement | 3.9 |
| 5 | Credit repayment duration is reasonable | 4.03 |
| 6 | Interest rate is justified | 3.9 |
| 7 | Required paper work are justified | 3.8 |

With all score above 3.5 the borrowers are satisfied with the service of the daily collection finance. The highest score of 4.2 of ‘Procedure for availing credit’ suggest that the women prefer such process where the documents require is minimal, no collateral and faster approval which aligns with their business model. As the working capital is less for these women traders, most of the client are able to cover their business expense with the loan amount.

Despite its high rate of interest, an average Likert score of 3.9 suggest that the women traders are willing to compensate the high cost as it provide quick and easy of access.

Informal microfinance a clear advantage over the formal channel with respect to speed, flexibility and accessibility and more importantly less documentation and collateral free. The above aspect makes it very popular particularly among small business and petty traders who need quick funds that can be turn around quick.

Across Manipur’s microfinance scene, daily-collection loans act as a lifeline. Women traders turn to them when self-help group loans or formal microfinance loans aren’t available, don’t cover their needs, or arrive too late. The continued use of these small daily loans shows how formal credit systems often don’t fit the unpredictable, day-to-day realities of petty trading.

Advantages, Limitations and Long-Term Implication.

Informal microfinance has a clear advantage over the formal channel with respect to speed, flexibility and accessibility and more importantly less documentation and collateral free. The above aspect makes it very popular particularly

among small business and petty traders who need quick funds that can be turn around quick.

Despite its astronomical high rate of interest for the daily finance, it thrives, with 90% of the women traders availing loan from such source, owing to its speedy access, lack of collateral, repayment structure.

The popularity of daily collection finance can be attributed to it repayment structure which are aligned with daily cash flow and collection mechanism where the agents comes to collect from the stall or shop.

Even if the borrower is totally aware about the bimonthly or daily repayment amount, the cumulative interest burden is underestimated because the repayments are framed as small, manageable fortnightly or daily sums rather than paying interest and principle separately.

The structural limitation of ROSCA based informal microfinance and daily collection finance are significant. With high interest rate, short repayment duration and high frequency of repayment obligations, the borrowers’ ability to build savings or assets are curtailed. Instead of promoting empowerment, the system often perpetuates dependency. The continued use of these small daily loans shows how formal credit systems often don’t fit the unpredictable, day-to-day realities of petty trading that women undertake

Conclusion

Informal finance source, especially daily finance collection, give women traders in Manipur the quick cash they need to get by, but they often come with high costs which makes it difficult to build lasting security. Formal loans usually don’t match the small, unpredictable cash flows of market life, so people use informal options out of necessity and convenience. Making a real difference means offering small, fast loans with interest rate at par with that of formal sector, least collateral and recovery collection from their stall location, built around the everyday realities of women traders. When services fit their lives, those short-term lifelines can turn into real chances for financial stability.

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