Innovative measures adopted by petty traders in dealing with challenges of accessing financial credit in Ghana

Baba Musa
Newmont Ghana Limited
Email: bmusah2013@gmail.com

Augustine Acheampong
Department of Management Studies Education
University of Education, Winneba, Kumasi
Email: auguachie@hotmail.com

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Abstract
This study sought to explore the challenges that petty traders face in accessing financial credit from banks and financial institutions and the innovative measures they initiate to deal with these challenges. Using the convenient sampling technique, 200 petty traders from New Abirem in the Birim North District of the Eastern region were selected and interviewed. Results from descriptive analysis shows that the major reason why petty traders do not seek financial credit is lack of collateral. Lack of collateral was again mentioned by respondents as the major reason why they were denied credit. Majority of the respondents resort to joining susu groups/rotating savings and credit associations in dealing with the challenges they face in accessing financial credit from banks and financial institutions. This study provides an evidence of the significant importance of susu groups/rotating savings and credit associations in the business activities of petty traders in Ghana.

Keywords: financial credit, petty traders, Ghana

1. INTRODUCTION

In spite of the tremendous contributions that small businesses make to national development, they lack access to finance, thereby impeding their growth and development. According to Ladder (1996), one important problem that small businesses often face is access to capital. This lack of adequate financial resources places significant constraints on the growth and development of small businesses.

In recognition of the major roles that small business play in the growth and development in Ghana's economy and to deal with their problem with lack of access to credit, the government of Ghana in 1985 introduced the National Board for Small-Scale Industries (NBSSI) for the promotion and development of small businesses. Some of their activities included extending credit through its loan schemes to entrepreneurs for both working capital and acquisition of assets. In addition the government has introduced various micro financing schemes such as Micro Finance and Small Loan Center (MASLOC) and the Venture Capital Trust Fund. However, the current status of small businesses access to credit, to reflect the effort that the government has put in promoting the growth and development of small businesses is yet to yield the desired result. According to Mensah (2004) there are many who believe that the single most important factor constraining the growth of small businesses is lack of finance.

In Ghana, micro/small trading is rampant and a source of employment and income for many urban and rural dwellers. The aforementioned situation shows that small businesses, particularly petty trading has a significant contribution in the economic development of Ghana. However, due to the sheer volume of petty traders in Ghana, their activities are unaccounted for and unrecognized in national economic statistics. Petty trading has in the past, been viewed as an underground activity that undermines the healthy function of the formal economy This perception has resulted in conflicts with authorities over licensing, taxation, site of operation, sanitation and working conditions.

Although petty traders form the bulk of occupants at the bottom of the economic pyramid in most developing countries (specifically, Ghana), previous studies in the area of access to credit have paid limited attention to the peculiar challenges faced by this segment of society and the innovative measures they initiate to deal with these challenges.

The growth of many businesses is predicated upon the ability of the business people to access credit facilities. About 90% of small businesses are refused loans when applied for from formal financial intermediaries, due to inability to fulfill conditions such as collateral requirements (Bigsten et al., 2000). Parker, Riopelle, and Steel (1995) indicates that credit constraint pertaining to working capital and raw materials are major concerns for small businesses.

Aryeetey, Baah-Nuakoh, Duggleby, Heettige, and Steel (1994), reports that 38% of small businesses surveyed mentioned credit as a constraint. Although many financial institutions have been vigorously marketing their credit facilities, few small businesses have been accessing them. There is therefore the need to conduct empirical research to look into the factors the constrain small businesses access to credit, the innovative measure they initiate to acquire credit in spite of difficulties and the impact that access to these credits have on the growth of their businesses.

The purpose of this study is to explore the factors that constraint small businesses (i.e. petty traders) in New Abirem in the Eastern region of Ghana in accessing financial credit facilities, and identify the innovative ways that these petty traders initiate to counter these constraints.

Previous studies in the area of access to credit for small businesses have mostly concentrated on the challenges or constraints that small businesses face in accessing credit facilities without looking at how these small businesses are able to deal with these constraints.

2. LITERATURE REVIEW

2.1 Challenges with access to financial credit in developing economies

It is very clear that lack of access to credit is a major constraint facing small business. Even empirical studies have confirmed this assertion. For example, Atieno (2001) used descriptive statistics to analyze the role of institutional lending policies of formal and informal credit institutions in determining access to and uses of credit facilities by small scale businesses in rural Kenya. Results from a randomly selected sample of 334 indicated that 36% of respondents were constrained but had not applied for credit. She concluded that, the major reasons for not seeking credit were lack of information about credit and lack of requirement security.

Swain (2002) also found that in addition to household characteristics, interest rate, land ownership, and the area of business operation are also significant determinants of demand for credit.

High transaction costs, risks related to small loans, and lack of collateral restrict small businesses access to formal credit (Davenport, 2007; Steel, 1994). Small businesses tend to have poor collateral base and therefore find it very difficult to get access to credit.

In situations where they can successfully seek credit, most owners of small businesses/small scale entrepreneurs may not be interested in such credits or fear the consequences of defaulting/previous disastrous experiences with financial services. Thus even, the mere presence of financial services even within close proximity does not guarantee the demand for and use of credit. According to Okurut (2004), the probability of default may be influenced by a number of factors such as returns of the business, the terms of the loan, and borrower characteristics.

Okojie et al. (2010) found that lack of bank accounts, collaterals and information regarding the procedure for accessing credit from banks limited rural women entrepreneurs' access to credit from formal institutions.

Formal banking institutions and financial institutions always demand collateral to act as a security on loans. These are mostly in the form of movable and immovable assets. In some cases, the small scale entrepreneurs are asked to save for some time and their savings are used as collateral before they are given a credit facility/ a loan. These requirements play a major role in the accessibility of credit among the small businesses since majority of them cannot meet these requirements. According to www.allbusiness.com, collateral is highlighted as a major constraint to credit accessibility. In a study 92% of the firms surveyed had applied for loans, and were rejected while others had decided not to apply since they 'knew' they would not be granted for lack of collateral. Although, most of the entrepreneurs, in the study recognized the importance of loans in improving their businesses, they cited collateral as a major impediment to loan accessibility and therefore business growth. Almost all respondents started their businesses from their own savings or loans from relatives since they did not demand security. According to Beaver (2002), the historical development and the associated culture of the banking system underpins the problem of the emphasis on the provision of collateral as a primary condition in lending. Banks have always adopted a risk averse stance towards small firms, with an accompanying inability to focus on the income generating potential of the venture, when analyzing the likelihood of loan repayment. Therefore, although there has been a considerable progress in the lending to small businesses, lending institutions remain cautious because many these businesses have neither, collateral nor, asset registers.

2.2 Innovative Measures adopted by small businesses to deal with the constraints of access to credit

Small businesses may turn to alternative forms of credit/finance if they find themselves unable to obtain traditional forms of credit or if they find the terms of these other forms of credit/finance more favourable. Such alternatives may include; joining a susu group, borrowing from family and friends, and seeking supplier credit.

Susu groups are formed when a group of people come together to make regular cyclical contribution to a common fund, which is then given as lump sum to one of the members of the group in each cycle. According to Harper (2002) this is a very common form of savings and credit. He states that, the members of the group are usually neighbors and friends, and the group provides an opportunity for social interaction and very popular with women.

Loans and contributions from friends and relatives are common source of funds for small businesses, especially for those who are about to start-up. This source of fund, however, may bear a potentially dangerous price. Many friends and relatives find it very difficult to stay as passive creditors or investors. They usually try to interfere with policy and operational issues (Kuriloff., Hemphill, & Cloud, 1993). As a remedy to this Kuriloff et al. (1993) recommended the treatment of such loans like bank loans by putting in writing all the terms including interest rates and payment schedule.

Supplier credit arises when a business owner purchases goods for which payment is deferred. Small businesses can use supplier credits either as a form of credit or as a convenient alternative to paying cash each time a purchase is made. Most small businesses in Ghana, particularly petty traders rely on this form of credit in order for their businesses to survive. Supplier credit is generally extended for an intermediate period of between 30 to 60 days, at which payment is due.

3. METHODOLOGY

3.1 Research design

In conducting this study, both quantitative and qualitative research approaches and the case study research design were used. This is consistent with similar studies on accessibility to credit facilities for small businesses that have been previously conducted and have been successfully analyzed using the same design and proven as appropriate. The case study research design involves a description of an ongoing event in relation to a particular outcome of interest over a fixed period of time **(**Breakwell, Hammond, & Fife-Schaw, 2007). Thus the case focuses on challenges faced by petty traders within the New Abirem township of the Birim North District Assembly in the Eastern Region in accessing financial credit and the innovative means they initiate to counter these challenges. According to Breakwell et al. (2007), the case study research design enables a more in-depth examination of a particular situation, yields rich and enlightening information, and makes it possible for the researcher to describe events in detail.

A questionnaire was administered through the face-to-face method of collecting data. The questionnaire was designed to ask petty traders to enumerate the challenges they face in accessing bank credit facilities, and the innovative measures they adopt to deal with these challenges.

3.2 Sampling Techniques and Sample Size

A combination of purposive and convenience sampling techniques were used in selecting petty traders who were ready and willing to respond to the questionnaires.

The sample considered people in petty trade – including those that may not fall under the standard categorization of micro and small scale businesses such as street hawkers, road side traders etc. In all 200 participants were used for the study.

Twenty-five percent (25%) of the respondents were males, whilst 75% were females. This shows that more women are engaged in petty trading than men. Majority of the respondents (31.7%) were 35 years of age and above. In terms of level of education, most (56.7%) of the respondents were JHS/Middle school graduates, while few (1.7%) had had Vocational/Technical education. Whilst 66.7% of respondents were married, 16.7% were single, 10% were widowed, and 6.7% were divorced.

3.3 Instruments/Measures

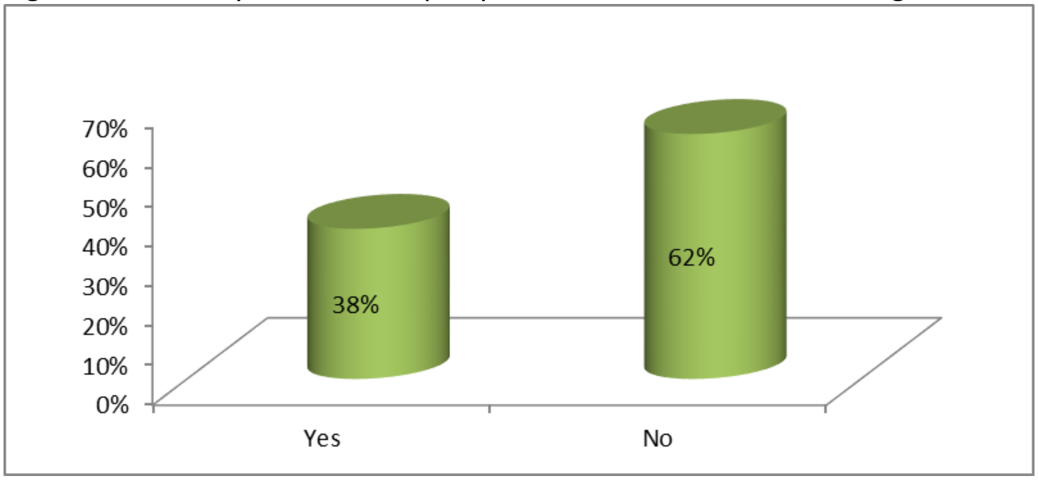
To collect data for the study, participants were kindly asked to respond to a closed and open ended questionnaire. In most cases interviews were conducted by trained research assistants as it was anticipated that most respondents would have difficulty in reading and writing.

RESULTS AND DISCUSSIONS

4.1 Loans from banks and financial institutions

The results in Figure 1 show that, 62% of the respondents have never applied for credit/loan from a bank or a financial institution before, whilst only 38% responded that they had applied for such credit/loans. This finding indicates that most petty traders in New Abirem are less likely to seek financial credit from banks and financial institutions regardless of the numerous number of banks and financial institutions that have sprung up in the area.

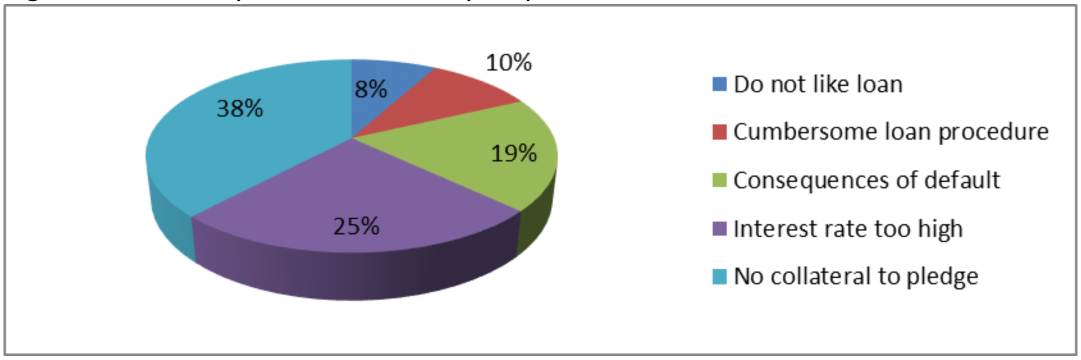
Figure 1: Summary of results on petty traders' financial credit seeking behaviour



4.2 Reasons for not seeking Financial Credit

An analysis on the reasons why respondents did not seek credit as indicated in Figure 2 shows that, only a small proportion of the respondents (8%) reported that they do not like credit facilities. Majority of the respondents (38%) identified lack of collateral as the main reason for not seeking credit; this was followed by fear of the consequences of default (25%), high interest rates (19%), and then cumbersome loan procedures (10%). This finding is similar to the research findings by Davenport (2007). Davenport (2007) found that high cost of credit; high interest rates, collateral requirement, and cumbersome documentation demanded by formal institutions deter many small scale industries from accessing formal funds. This suggests that the most important reason for not seeking bank credit and thereby relying on other sources of finance is not because petty traders do not like bank credit or as a result of choice, but due to lack of collateral, consequences of defaulting credit repayment and high interest rates charged on credit. This finding also corroborates the findings of Atieno (2001) where respondents were constrained but had not applied for credit. Atieno (2001) argued that the major reasons for not seeking credit were lack of information about credit and lack of requirement security. Steel (1994) argues that, high transaction cost, risks related to small loans, and lack of collateral restrict small businesses access to formal credit. Similarly Okurut (2004) found that it is possible for most small scale entrepreneurs who seek credit to obtain it, but costs and conditions may prevent them from seeking the credit.

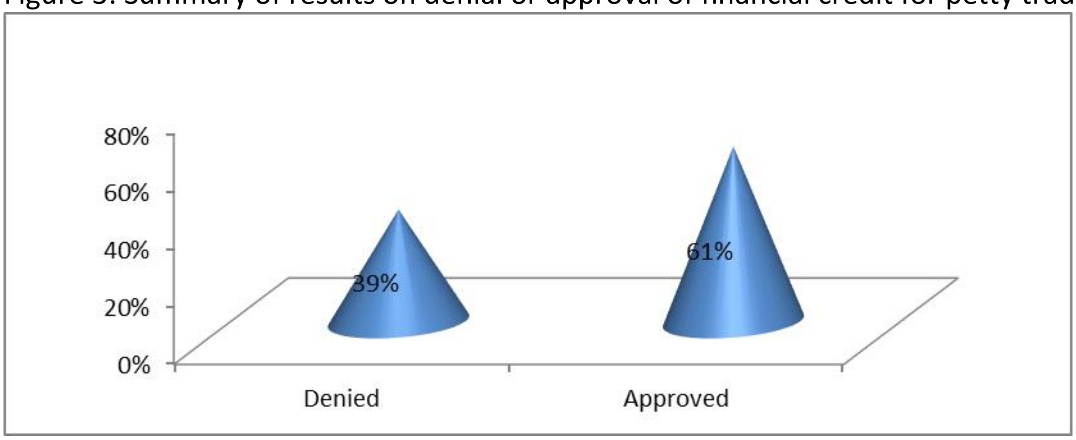
Figure 2: Summary of results on why respondents do not seek credit



4.3 Denial of Financial Credit

Respondents who reported that they had applied for financial credit from banks or financial institutions before were asked whether they received the loan or not. Out of the 76 respondents who had applied for financial credit before, 46 (61%) reported that they received the loans, whilst 30 (39%) reported that they did not**.** Figure 3 shows a summary of the results. A further interview of respondents who were denied credit indicated lack of collateral, insufficient income, inappropriate purpose for loans were the reasons given to them by the banks and the financial institutions for the denial.

Figure 3: Summary of results on denial or approval of financial credit for petty traders



4.4 Adequacy of Credit

Eighty percent (80%) of the respondents who had received credit/loans reported that the credit/loans were able to meet their needs, whiles only 20% reported that the credit/loans were not adequate to meet their needs. This suggests that in spite of the challenges petty traders face in accessing credit and their lackadaisical attitude towards seeking credit facilities the majority of the petty traders who are able to secure these financial credit/loans find it suitable for their needs. Table 1 shows a summary of the results.

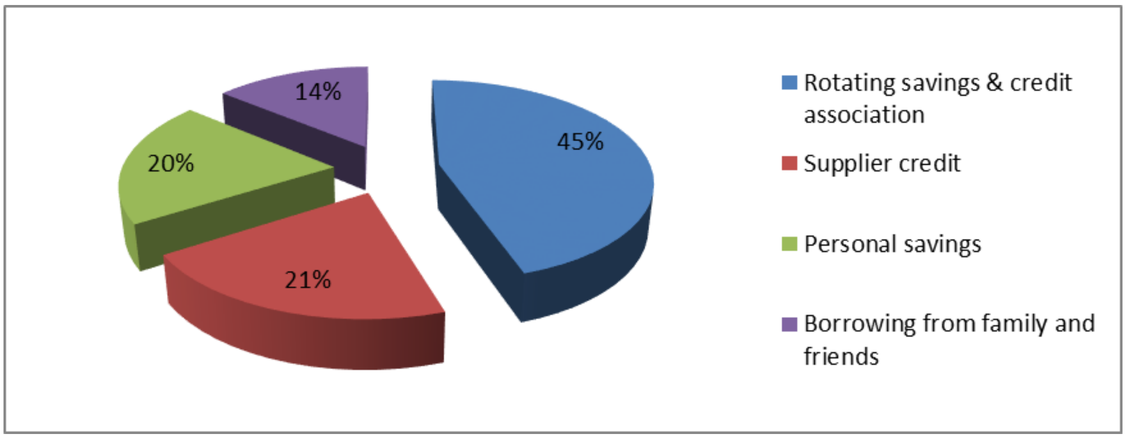
Table 1: Summary of results on adequacy of financial credit for petty traders

Response	N	Percentage (%)
Yes	37	80
No	9	20
Total	46	100

4.5 Innovative means initiated to deal with challenges with access to Bank Credit

Figure 4 shows a summary of the alternative sources of credit for participants who reported that they have been denied or refused credit. Respondents were asked to indicate the alternative means they have used to secure credit since the denial. Forty-five percent of the respondents joined susu groups/rotating savings and credit associations, 21% received supplier credit, 20% relied on their personal savings, and 14% sought credit from family and friends.

Figure 4: Summary of results on measures adopted by petty traders in dealing with challenges with access to credit



CONCLUSION

This study examined the challenges that petty traders face in accessing financial credit from banks and financial institutions, and the innovative measures that these petty traders adopt in dealing with the challenges. Although petty traders who are able to secure financial credit find them adequate for their needs, the majority of them face numerous challenges in accessing these financial credit facilities from banks and financial institutions.

This study found that majority of petty traders in New Abirem in the Eastern region of Ghana feel less reluctant to seek credit from banks and financial institutions. The results from the study show that the large proportions of the petty traders who do not seek these financial credit facilities do not do so out of choice, but as a result of factors such as lack of collateral, high interest rates and cumbersome loan procedures. The study also found that most petty resort to joining susu groups/rotating savings and credit associations in dealing with the challenges they face in accessing financial credit from banks and financial institutions

THEORETICAL AND PRACTICAL IMPLICATIONS

Theoretically this study provides preliminary evidence on the challenges that petty traders face in accessing credit facilities in Ghana. There is a dearth of literature on the challenges that micro-entrepreneurs particularly petty traders face in accessing financial credit.

This study also points out the significant role that rotating savings and credit (ROSC) plays in the growth of the businesses of petty traders Ghana.

Thus ROSC has become the last hope that petty traders resort to when it comes to finding financial credit to keep their businesses going

Finally, this study provides an empirical evidence of the characteristics of petty traders in Ghana.

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