Challenges faced by Petty Traders in Accessing Loans from Financial Institutions

ABSTRACT

Access to finance is a key determinant for business start-up, development and growth for small businesses. This paper focused on the challenges faced by petty traders in accessing loans within Wa Central in the Upper West Region of Ghana with a sample of eighty-one respondents for both the questionnaire and the interview. The data collected was analysed using descriptive statistics, Pearson correlation matrix and Kendall's coefficient of concordance. The study showed evidence that high interest rate charged; demand for collateral and poor records keeping by petty traders were the challenges of accessing loans. The paper suggests that petty traders must keep proper records, the need for financial institutions to reconsider its stringent eligibility criteria for petty traders, finally policy makers must create an enabling operating environment for micro enterprises to flourish.

Keywords: petty trading, accessing loan**,** financial institutions, lending, mixed method.

1. INTRODUCTION

Credit for petty traders and small businesses has been described as one of the pre-requisites for business expansion and growth from enterprise point of view There is no second thought that financing is a key tool for growth of any firm and accessing the right kind of financing according to the firm's need is of more importance [1]. Petty trading is a major part of the informal sector activities that employ the majority of people in the developing countries [2]. Petty trading can be referred to as an economic activity that involves selling and buying goods and services in small scale, ranging from agricultural produce to imported consumer goods [3]. Financial capital is an important production factor and is of particular importance for small firms [4]. The efficient provision of finance to small firms has long been recognized as a key factor in ensuring that these firms can grow and compete [5]. Availability of finance and access to that finance is a critical element to the start-up and consequent performance of any enterprise [6]

Entrepreneurial activity among smaller businesses may be constrained by restrictions on access to finance, accentuating that such restrictions may vary from the denial of access to credit through to the availability of credit in insufficient quantities or inappropriate terms [7]. Gaining access to appropriate levels of finance is a challenge to many small firms' owners irrespective of the funding route they will utilize [8]. If small firms are to continue to develop then it is critical for them to have adequate sources of debt and equity financing [9]. Most small businesses especially in Sub-Saharan Africa fail in their first-year due to lack of support from government, traditional banks and their inability to manage their business professionally [10]. Very few start-up businesses have the luxury of not needing some form of finance, if not at the outset of trading, then later as the business starts to expand and grow [11].

Small businesses restricted access to the bank credit may not be directly attributable to their size, but rather to problems associated with the availability of information used to evaluate a project, or information asymmetry. Banks generally prefer borrowers with good track records of profitability, some degree of longevity, longer-term banking relationships, and assets that can be used as collateral [12]. Small businesses generally have difficulties obtaining bank loans because of their special characteristics [4]. Banks are careful in granting credit facilities to small businesses due to information asymmetry that stems from the absence of insufficient accounting and financial records [10] .High failure rate and provision of insufficient collateral were major reasons of banks hesitancy to give out loans to small businesses [13].

Difficulties experienced in accessing bank financing result in lost opportunity to grow the business [2]. Internal factors, socio-cultural and policy-induced were the key moderating influences on women petty trader's main constraints to access to micro-credit [3].

Limited use of credit reflects lacks of supply, resulting from rationing behaviour of both formal and informal lending institutions in a study in Kenya whiles the focus was on the role of institutional lending policies in determining the access of small-scale enterprises [14]. Six banks characterized by a German culture and three banks characterized by an Italian culture revealed that small and medium enterprises that enjoy a high level of trust from loan managers obtain more credit and are less credit constrained [15]. Constraints to access to credit by small and medium enterprises in Sokoto Metropolis in Nigeria showed a significant relationship between volume of small and medium enterprises credit and interest rate meaning that only interest rate constrained access to credit in the study area. The study recommended lower interest rate in the future and pragmatic government intervention programs for small and medium enterprises in Nigeria [16].

A study surveyed 487 small and medium enterprises in Vietnam on their credit accessibility. The result suggested that owner characteristics, educational level and gender were the most important factors in determining the access to credit, followed by small and medium enterprises relationship with banks and customers. With regards to the loan interest rate, the owner characteristics variables were not significant. The most expensive source of financing was from private money lenders, followed by commercial bank loan and microfinance [17]. Firm sales, owner's educational level, belonging to a business association, owing a personal and business account were positively associated with access to formal credit by micro and small enterprises in Uganda using the gender enterprise survey [18]. Firm age is an important determinant of SME's access to formal credit [12]. Lack of finance and its access from the financial institutions in the Ghanaian context has been regarded as one of the major problems facing small businesses operations [19]. A major challenge faced by SME's in accessing cheap finance is mainly due to an asymmetric information problem between suppliers and demanders of funds which hinders their growth [20].

One of the major occupations of the urban informal sector is petty trading. It has become a crucial distribution outlet catering for the needs of the lower middle class and the poor to ensure the availability of goods and services. There is no doubt that petty trading creates jobs to the jobless and at times offers a decent remuneration to those largely unemployed. Nonetheless petty trading receives little attention from the policy makers and to a larger extent the financial institutions which should have acted as the backbone to that sector. In the Ghanaian context, petty trading has often been perceived by the society and the authorities as a nuisance by the creation of congestion and unhygienic nature of their activities. This is evidenced by the forced eviction and relocation of petty traders from the city centres to designated places. There exist serious funding challenges when it comes to accessing both formal and informal financial institutions [2]. One problem for the entrepreneur is determining how to successfully secure a loan from a bank [21]. A study into factors contributing to repayment behaviour of micro loans in Agricultural Bank of Meshkinshahr revealed that supervision, occupation and education were found to be significant predictors of repayment behaviours of borrowers [22].

It was revealed in a study that forcing banks to recognize losses could choke off lending and amplify local economic woes but stricter supervision could also lead to changes in how banks assess loans and manage their loan portfolios as suggested in [23]. Most SME's suffer from a lack of, or poor record-keeping systems and undocumented business processes and contracting as they rely heavily on operators' memory and a trust-based business traction system [24]. A study indicated that microfinance institutions can diminish portfolio risks by managing training sessions to their businesses to increase knowledge in proper business record keeping and utilization of funds to successfully repaid the loan [25].The SME sector in Tanzania has limited access to finance in that the sector is perceived as a high risk one coupled with their inability to fulfill the collateral requirements. The author further indicated that most banks do not operate an SME's financing window and inexperience of bank staff in areas related to micro-finance [26] Banks are generally cautious in lending money particularly to new ventures since they do not want to incur losses through bad loans. This paper investigates how petty traders and small businesses access loans and the challenges that they encounter at Wa Central in the Upper West Region of Ghana. The rest of the paper is organized as follows; section two considers the methodology used while section three presents the result and discussions with section four concluding the paper.

2. STUDY AREA AND METHODOLOGY

2.1 Study Area

The population of Wa Municipal according to the 2010 Population and Housing Census is 107,214 representing 15.3 percent of the region's total population. Males constitute 49.7 percent and females represent 50.6 percent. The proportion of literate males (74.1%) is higher than that of females (56.7%). Six out of ten people (60.7%) indicate they can speak and write both English and Ghanaian languages. Of the economically active population, 91.5 percent are employed while 8.5 percent are unemployed. Of the employed population, the highest proportion (29.3%) is engaged as skilled agricultural, forestry and fishery workers. About 25.7 percent are engaged in service and sales; 18.5 percent in craft and related trades, 8.5 percent are engaged as professionals. The private informal sector is the largest employer in the Municipality, employing 80.1 percent of the population [27].

2.2 Methodology

Mixed method design utilizing qualitative and quantitative methods was adopted for the study. The quantitative aspect was done through questionnaire administration via petty traders whiles the qualitative approach was used to supplement and strengthen the quantitative aspect to provide an opportunity for the study to seek first-hand information from the Branch Manager of BayPort Savings and Loans Limited in Wa Municipal. The justification of the mixed method approach is that the strength of one method can be used to overcome the weakness of another method. Moreover narrative and non-textual information can add meaning to numeric data while numeric data can add precision to narrative and non-textual information.

The target population for the study comprises of petty traders and small businesses at Wa Central in the Upper West Region. The sample size of eighty-one (81) was randomly selected with quota at several geographical locations and purposively sampled the Branch Manager of Bay Port Savings and Loans.

Table 1: Composition of Sample

Location	Number of petty traders and small businesses
Fadama Market, Near Melcom	15
Old market, main lorry station	30
Zongo Market, near Sonzele	10
Tindaba Market, along Wa Poly	10
Insurance Street, Limann Yeri	15
Branch Manager, BayPort Savings and Loans	1
Total	81

Source: Field work, 2018

A structured questionnaire and the use of interview guide were the data collection procedures used. The questionnaire was self-administered through face to face encounter. The interview was face to face as well. The scale was prominently five-likert scale as measurement of the questionnaires. Descriptive statistics in terms of bar charts, Pearson Correlation Matrix and Kendall's Coefficient of Concordance aided the analysis on the questionnaire responses while interpretative approach aided the interview responses. The study observed ethical issues which included the craving of the indulgence of respondents before questionnaire administration. Respondents were also given the assurance that any information given out would be treated with the highest level of confidentiality adding that any information given would be used for the purposes of this study only and nothing else.

2.3 Analytical Framework

Descriptive statistics aided the explanation of the respondent's characteristics through percentages and bar chart illustrated the responses on related issues on loan acquisition from the perspective of the petty traders and the small businesses. Data reliability which is a measure of internal consistency and average correlation was measured using Cronbach's Alpha Coefficient, which ranges from 0 to 1. Correlation analysis was used to find the strength of the association between the variables involved. Inter-correlations coefficients (r) were calculated by using the Pearson Correlations.

Correlations were computed among the five themes on the challenges of accessing loans by petty traders and small businesses on data for 80 respondents

The hypothesis of the study was constructed as:

H_o: There is no correlation between trader characteristics and challenges in accessing loans.

H_l: There is a correlation between trader characteristics and challenges in accessing loans.

Kendall's coefficient of concordance *(W)* analysis was used to rank the items identified in the challenges in accessing loans by the petty traders and the small businesses. The degree of agreement of the rankings by the traders was then measured. *W* ranges from 0 to 1. In deriving *W*, let *T;* represent the sum of ranks for each challenge in accessing loan factor being ranked. The variance of the sum of ranks is given by:

$$Var_T = \frac{\sum r^2 - (\sum r)^2/n}{n} \quad (1)$$

Where Var denotes variance and n denotes the number of each challenge in accessing loan factor. The maximum variance of T is given by

$$m^2 (n^2 - 1)/12 \quad (2)$$

Where m is the number of respondents. The formula for Kendall's coefficient of concordance $W$is given by

$$W = \frac{(\sum r - (\sum r)^2/n)/n}{m^2 (n^2 - 1)/12} \quad (3)$$

By simplifying equation 3 above, the result in the computational formula for Was:

$$W = \frac{12[\sum r^2 - (\sum r)^2/n]}{mn^2(n^2 - 1)} \quad (4)$$

The analysis of the qualitative data was textual and interpretative. The interview analysis adopted Wolcott's three dimensions of qualitative research approach which are description, analysis and interpretation [28]. The description touch on what the researcher want his/her readers to see what the researcher saw, while the analysis looked at what the researcher want his/her readers know what the researcher know. The interpretation which is the last stage considers what the researcher what his/her readers to understand what the researcher think you the reader have understood.

2.4 Ethical Issues

There is the need to observed ethical considerations in a research study [29]. The study observed ethical issues in the areas of procedural point of view where respondents were given sufficient time to make their mind on the issues in the questionnaire, secondly respondents were fully informed about the study to get their assent to take part of the study, thirdly on the questionnaire itself respondents were provided with comprehensive information to fill the questionnaire correctly and finally respondents were also given the assurance that any information given out would be treated with the highest level of confidentiality adding that any information given would be used for the purposes of this study only and nothing else.

3. RESULTS AND DISCUSSION

3.1 Demographic information of respondents

Among the eighty (80) respondents studied, (74%) were males and (26%) were females. In terms of age ranges, (11%) falls within the age range of 20-29 years whiles (62%) had between 30-39 years; (22%) had between 40-49 years and (5%) accounted for 50-59 years. This implies that petty trading and small businesses are dominated by males. Considering the age pattern it is visible that those within the age group of 20-29years are the most prominent within the study sample due to their ability and energy to hawk around as petty trading can be demanding. The mean age of respondents was 36.9 years which implies that respondents were still young and strong enough to be able to repay the loan they have taken. Considering the educational level, it was revealed that (39%) of the sampled population has acquired educational level to the Senior High School level which makes them literate to communicate comfortable with customers. The next is those who have completed a tertiary educational of any discipline which had (8%). (31%) had no formal education while (22%) had their basic education. Majority of the respondents have had various levels of education which is believed to enhance their decision making to help them make the most out of their businesses to earn enough profits to repay their loans. The number of years of respondents being in business revealed that (37%) had 6 to 10 years of experience; (36%) had 1 to 5 years of experience; (15%) had 11 to 15 years of experience; (12%) had 16 years and above experience. The mean years of experience of respondents was 8.4 years of which implies that after doing the same thing over and over again for about 8.4 years one would have gain all the skills needed to succeed in that trade to be able to make profits. It is therefore believed that the respondents with that level of experience would be able to work to repay their loans.

3.2 Related issues on loan acquisition

The bar chart as indicated in Figure 1 illustrates the percentage of respondents citing the issue as ‘major’ or ‘critical’ on related issues on loan acquisition among the eighty petty traders/small businesses. The discussion on the bar chart was centered on the three highest percentages and the least three percentages as shown in Figure 1.

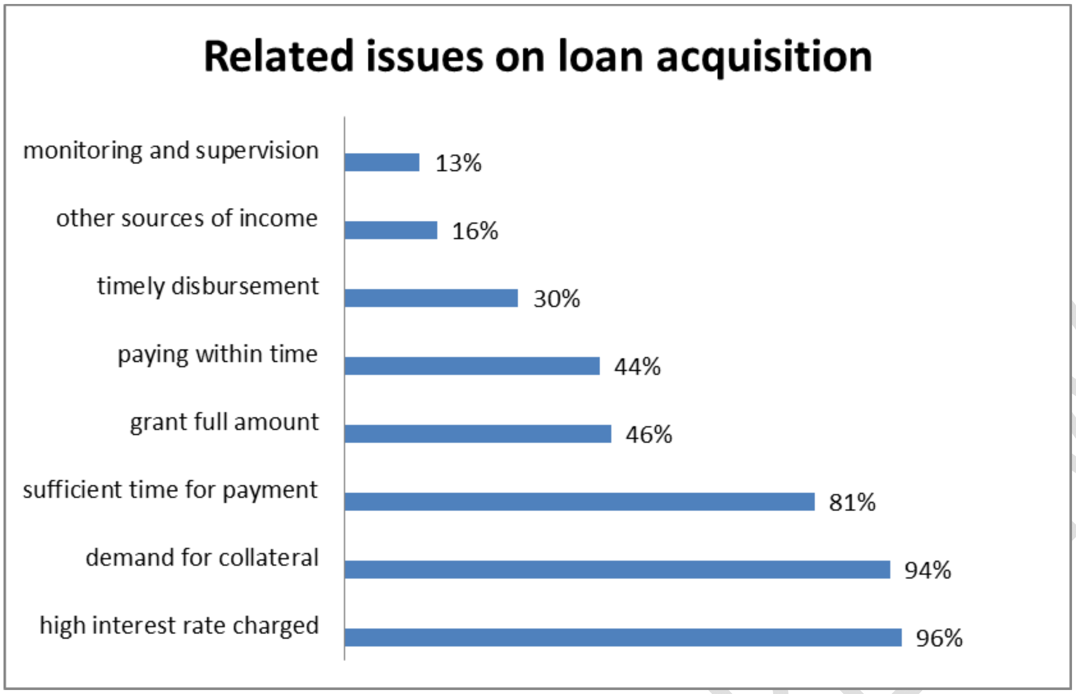

Figure 1. Issues on loan acquisition

Overall it can be concluded that a large majority accounted for 96% was of the opinion that a high interest had an impact on petty traders accepting the credit facility or otherwise making repayment difficult as they end up paying close to half of the principal as interest. The result as evident is in line with the assertion in [7] and [16] on high interest rate and inappropriate credit terms as reported by small businesses as constraints in these studies. This is an issue common among the Sub-Saharan countries as confirm in a study in [12]. Moreover 94% of the petty traders indicated that demand for collateral make the financial institutions comfortable to secure the loans which on the other hand is a requirement barrier for most petty traders. Significant majority of petty traders cannot provide suitable collateral to meet the demands of lenders and hence can benefit from the advice in [18] where the study recommended the need for small businesses to belong to business associations which can serve as collateral for individual or group loans for members to leverage on the association. The time given was sufficient for petty traders to repay their loans as revealed by 81% of the sampled petty traders and small businesses.

Surprisingly 13% of the petty traders agreed that they were monitored by the financial institution they collected the loan from whereas 87% disagreed which is worrying as it does not indicate a good lending practice. Poor monitoring and supervision on the use of the loan for the intended purpose could lead to loan default as the money is not being used for what was agreed on to generate income that would enable respondents to pay back their loans without defaulting. The result is a statement that even securing a loan through collateral is not enough as the lending institution must take steps to ensure timely repayment schedule of the loan than to be happy with the collateral. The result amplified the assertion in [22] that effective monitoring and supervision is a significant predictor of loan repayment behaviour of borrowers. Another 16% stressed that they had other sources of income aside the business they are currently into which suppose that a large majority of the respondents had no other source of income as an alternative to turn to in case this particular business fails to enable them repay their loans which means they could easily default. The result will benefit from the suggestion in [25] that a financial institution can diminish portfolio risk by organizing training programs for traders in business record keeping and utilization of funds which will help in the repayment of the loan. A large minority said that their loans were disbursed on time, implying that more than half had their loan disbursement delayed which could probably hinder or defeat the purpose for which the loan was acquired which could affect the respondent's ability to repay the loan.

3.3 Challenges in accessing loan.

The discussion is on the mean rank, Kendall's coefficient of concordance, Cronbach alpha and how the themes are correlated using the Pearson Correlation Matrix. As indicated in Table 2 using the Pearson Correlation Matrix to expressed the strength of the linkage between two variables considering the challenges in accessing credit by petty traders/small businesses. The least correlation coefficient is .553** whiles the highest correlation coefficient is .920**. Correlations were computed among five themes on the challenges in accessing loans by petty traders/small businesses scales on data for eighty respondents. The results from Table 2 on the Pearson Matrix suggest that all the 10 correlations were statistically significant at p<. .01 at two-tailed. It indicates that 7 out of the 10 correlations r(80) is greater than or equal to .70, p < .01 while the other 3 correlations r(80) is between .553 and .692.

Table 2 indicates that poor records keeping on the part of traders, demand for collateral by financial institutions, high risk nature of the business and seasonality of the business between them accounted for between .843** and .920**. It can be concluded that these variables are the major challenges that constrain the access to credit. Correlation analysis reveals a strong positive correlation between poor records keeping on the part of traders and high interest rates charged by financial institutions is r = .85. The more the financial institution realized that trader's record keeping is a challenge then they might charge a higher interest rate which moves in the same direction. This result aligned with the assertion in [20] stating that an asymmetric information problem between suppliers and demanders of funds hinders the growth of small businesses. On the other hand, as stated in [24] that the cost of credit is high for small businesses due to lack of, or poor record-keeping systems.

It can be concluded that due to the possibility of non-repayment of loans of high risk businesses, the financial institutions are likely to secure the loans demanded by these clients in order to safeguard the funds of depositors. As evident from the correlation analysis, the coefficient between high risk nature of business and the demand for collateral by financial institutions is .88. The result sums up the need and call by many authors on the need to protect the depositors money by making sure that loans giving must be paid back on time and if the risk is high then the need to secure that loan hence demanding for collateral as suggested in [13],[19],[20] and [23].

Table 2: Challenges in accessing loan

Theme	1	2	3	4	5
1.Poor records keeping on the part of traders	1				
2. High interest rates charged by financial institutions	.848**	1			
3. Demand for collateral by financial institutions	.692**	.741**	1		
4. High risk nature of the business	.843**	.649**	.876**	1	
5. Seasonality of the business	.718**	.553**	.746**	920**	1
Mean Rank	3.14	3.41	3.48	2.60	2.38
Ranking	3^{rd}	2^{nd}	1^{st}	4^{th}	5^{th}
Number of respondents	80				
Coefficient of concordance (W)	30.9%				
Cronbach's Alpha	92.9%				
Number of items	5				

Source: Fieldwork data, 2018

Note: ** correlation is significant at the 0.01 level (2-tailed) Pearson Correlation Matrix

The respondents indicated their opinions as score on a five likert scale from strongly disagree to strongly agree but the ranking was done using Kendall's Coefficient of Concordance. The Kendall's Coefficient of Concordance of (W^s =30.9%) implies that 30.9% agreed to the overall ranking with the firm belief that indeed the challenges cut across among the respondents. The seventh row of Table 2 indicates the mean rank of the five themes with the highest mean score of 3.48 confirming that the respondents know that demand for collateral by the financial institutions is the major challenge to access loan by petty/small businesses as it was ranked first as evidenced in [19] and [23]. The lowest ranked theme had a mean score of 2.38 indicating that the seasonality of their businesses was not popular among majority of the respondents as the traders do not see it as a key constraint to access to credit. The result is associated with the assertion in [3], [10] and [14] on the peculiar characteristics of petty trading to an extension small businesses which is largely influenced by the lending policies of the financial institutions.

Reliability refers to the extent to which a scale produces consistent results if the measurements are repeated a number of times. Almost eighty percent of the questionnaire employed for the research was a 5-point Likert scale. Coefficient alpha scores obtained was 92.9%. Thus, if the association in the reliability analysis is high, the scale yields consistent results and is therefore reliable. This shows the reliability of the scale for internal consistency of this study.

3.4 Interview with Branch Manager (BM) of Bay Port Savings and Loans, Wa on pertinent issues on lending.

When the Branch Manager was asked why does your financial institution give loans to petty trader/small business? This was the response "*To eradicate poverty among the small income earners, help grow and expand SME's in the locality, broaden the company's loan base, contribute to the economic growth of the Republic and meet the needs of the SME's as some commercial banks denies them".* It is clear from the Branch Manager response that Bay Port Savings and Loans target the informal sector especially with the traders where they make a lot of micro savings. The responses of the Branch Manager confirms the assertion in [4], [5] and [6] on the importance of bank credit to small businesses which is not available in the traditional banks even getting a credit from the savings and loans is a hard work. It is refreshing that the non-financial institutions are filling the gap created by the commercial banks by making credit available to small businesses.

On the procedure and requirement for granting individual loans the Branch Manager's response was *"Traditionally, it goes through nine stages: applicant must have a savings account with the company, operate the accounts for three months, submit an application letter, amount to be granted or approve will be made to the applicant, the applicant provide a guarantor who should be someone on government payroll, guarantor submits copy of pay slip and two passport picture and his/her voter ID card and finally the repayment of the loan is strictly daily/monthly".* Adherence to the lending procedures is critical to the repayment of the loan. The response is in alignment with [4],[10] and [12] indicating the issue of information asymmetry and avoidance of possibly creating a bad loan hence the rigorous procedures.

In terms of the security for the loan the Branch Manager stressed that **"***We demand personal guarantor and cash collateral".* It is important to make sure that loans given out must be secured to protect the depositor's money and this also enhances the liquidity of the company. The Branch Manager pointed out that **'***high default rate, evasion and relocation of client without the company notice are the three main challenges facing the company".* There is the need for effective monitoring and supervision through the fieldwork and intelligence. The Branch Manager's advice on management of loans was that *"There should be insurance to the loan, collateral must be more valuable than the loan and loans must be granted to workers of companies that pay their salaries through the bank".* The responses are in consistent with the results in [14], [15], [3] and [20] on rationing behaviour of lending institutions, level of trust as seen by the credit officers, enterprise characteristics and problem of asymmetric information between suppliers and demanders of funds

4. CONCLUSION

Our study investigates the challenges faced by petty traders and small businesses in accessing loan from the financial institutions especially the commercial banks. The findings suggest that petty traders and small businesses are dominated by males. A significant minority of the sample had no formal education with a mean age of trading experience as eight years and four months. Significant majority of the petty traders had no alternative to turn to in terms of other sources of income in case this business fails. High interest charged affected repayment of the loan with evidence of poor supervision and monitoring of the loan by the financial institutions that granted the loan.

Collateralization of the loan denied many of the traders from accessing the loan coupled with the inability to get the loan demanded for either it will be cut down or declined due to information asymmetry. Significant majority suggested that repayment period was sufficient for any of them to repay the loan all things being equal. Default rate was on average high as traders find it difficult to meet their loan obligation on time. Challenges of accessing loan were contributed to poor record keeping on the part of the petty traders, demand for collateral and high interest charge. The Branch Manager gave a detailed account on the lending procedure and the purpose of giving credit to the petty traders. He further stressed that significant challenges faced by the financial institutions are default rate, evasion and relocation of the client without informing the bank.

Our findings have interesting implications for petty traders/small businesses, financial institutions and policymakers. As far as petty traders are concerned, the results shows that traders are able to get access to credit with effective record keeping, provision of collateral and alternative source of income as a reserve for the business. In this case traders are more likely to obtain credit as financial institutions consider the higher recovery rates when making the lending decision. Policy prescription must be on outreach educational programs to sensitize the traders on the demands for accessing credit from the financial institutions. The need for reconsideration of the stringent eligibility criteria for the petty traders as this will go a long way to improve their chances of access to credit bearing in mind their role in the socioeconomic development in the country. As far as financial institutions are concerned the result suggest that the financial institutions given the opportunity will exploit the advantage of securable assets provided by the petty trader/small businesses and stringent eligibility criteria for access to credit to the traders. Policy makers must initiate programmes and alternative routing for microcredit dedicated for petty traders considering their inability to provide collateral as this will enhance their access to credit.

COMPETING INTERESTS

Authors have declared that no competing interests exist

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