

The Importance of the Informal Sector of Ghana to Savings and Loans Companies

*G. Owusu-Bempah, **Dr. E. Bennet, ***Dennis Amoako,****Richmond. K. Frempong

- gowusubempah@yahoo.com Lecturer (Business Administration) All Nations University, Koforidua.
- bennetebenezer@yahoo.com, Head of Department (Business Administration), All Nations University College, Koforidua.
- dennisamoako@yahoo.com, Head of Department (Purchasing and Supply) Koforidua Polytechnic, Koforidua.
- richmond.frempong@koforiduapoly.edu.gh Dean of the School of Business and Management Studies, Koforidua Polytechnic, Koforidua.

Abstract

The informal sector plays a critical and controversial role. It provides jobs and reduces unemployment and underemployment, but in many cases the jobs are low-paid and the job security is poor. It bolsters entrepreneurial activity, but at the detriment of state regulations compliance, particularly regarding tax and labor regulations. In the mist of this controversy, a growing number of savings and loans companies have made the sector their primary target. It was therefore necessary to conduct a research to investigate the importance of the informal sector to savings and loans companies. The objectives of the research were to examine the risks of the informal sector to savings and loans companies, to examine the benefits of the informal sector to savings and loans companies and to assess relationship between the informal sector and savings and loans companies. The research adopted both probability and non-probability sampling methods. A quota of 15 respondents was given to each of the four companies namely Procredit, Ezi, Opportunity and Garden City Savings and Loans companies. Then the purposive and simple random techniques were used to select the 15 respondents of each company. The purposive technique was used to select accountants and marketers of the companies. This was due to the category involvement, knowledge and experience. The simple random technique ensured that each respondent stood an equal chance of being selected. The sample size for the study was 60. The research found out that the informal sector is highly important to savings and loans companies in Ghana as the benefits of doing business with them far out-weighs the associated costs.

Key words: Informal sector, Savings and loans

1. INTRODUCTION

Informality, both in housing and livelihood generation has often been seen as a social ill, and described either in terms of what participant's lack, or wish to avoid. A countervailing view, put forward by prominent Dutch sociologist Saskia Sassen is that the modern or new 'informal' sector is the product and driver of advanced capitalism and the site of the most entrepreneurial aspects of the urban economy, led by creative professionals such as artists, architects, designers and soft-ware developers. While this manifestation of the informal sector remains largely a feature of developed countries, increasingly systems are emerging to facilitate similarly qualified people in developing countries to participate.

2. REVIEW OF LITERATURE

In this paper, a comprehensive literatures review about the importance of the informal sector to savings and loans companies, has been carried out.

2.1 HISTORY OF THE INFORMAL SECTOR OF GHANA

The origin of the informal sector in Ghana's economy can be traced back to the very beginnings of colonial capitalism in the then Gold Coast. Right from the outset, a dualistic economy with two distinct sub-economies emerged alongside each other. The key features of the colonial economy included primary commodity production for export, investments in mining, transportation and related services, infrastructure and public works, and social development. (Boabeng, 2009)

On the one hand, a small formal sector covered essentially capital investment in mining, transportation, infrastructure, commerce, social services and administration with wage employment characterizing the existence and operations of labour therein. On the other hand, the promotion of primary commodities production for export and the import of consumer goods for domestic trade gave rise to large contingents of the labour force in both agriculture and petty trading who were either self-employed or hired under traditional or informal arrangements. (Konadu, 2008)

Even at such an early stage an essential feature of labour in the informal sector was its heterogeneous character that provided for varieties of peasant proprietors and agricultural labourers, distribution agents, buyers, transport owners and employees, porters, repairers, etc. (Konadu, 2008)

The informal sector has received increasing attention in the development discourse of Ghana since the middle of the 1980s and the beginning of the 1990s. It has, in effect, been the target of some policy initiatives and activities by certain governmental and non-governmental institutions and organisations, including the trade unions. The attention to the sector at the intellectual and policy levels has arisen out of the realisation that the sector has not only persisted from the making of Ghana as a new nation state, but has also been dramatically expanding. (Konadu, 2008)

One of the overriding consequences of structural adjustment in Ghana since the mid-1980s has been the shrinking formal sector and the expansion of the informal sector. This has arisen particularly as a result of public sector reform that had massive retrenchment of labour as an important component.

2.2 THE INFORMAL SECTOR AND SAVINGS AND LOANS COMPANIES

In Ghana, financial services to the informal sector have been made accessible largely through non-bank financial institutions, many of whom started operations in the mid-1990s, and the rural banks. The country's banks have long considered the informal sector un-bankable and for the better part shunned it, because of the perceived risk of high loan defaults and low savings mobilisation potential.

Actually, the banks can hardly be blamed for their rather dismissive attitude towards the informal sector because, traditionally, banking operations work with formal set ups where proper books are kept and have a defined management structure with a deep sense of appreciation for accountability. All of these are lacking in the informal economy, and what is worse is that – in the case of Ghana the personal residential address system is nearly non-existent and many people do not have proper title to their assets to afford them the opportunity to use them as collateral for loans. (Boabeng, 2009)

With the entry of non-banking financial institutions, particularly the deposit-taking ones, into Ghana's financial services industry, businesses and individuals that were hitherto considered un-bankable simply on account of being an informal sector or low-income player, now have access to finance and credit through the country's non-bank financial institutions. And the sector has produced remarkable results in recent years through their all-important role of providing financial intermediation to Ghana's informal sector – which accounts for the biggest piece of the pie in terms of the nation's economic activity.

At the end of 2008, for example, the total assets of all savings and loans companies in the country was more than GH¢247 million and, altogether, savings and loans companies in Ghana mobilised a total of GH¢130 million from the public in 2008. The industry also disbursed a total of GH¢61 million in loans to private enterprises and as much as GH¢81 million to individuals.

No doubt, the sheer size of the savings and loans market will get the mouth of any bank watering, and it is not surprising that some are beginning to take advantage of their universal banking licence to enter the ever-more lucrative microfinance and credit market. Much as the microfinance players concede the market is big enough to accommodate the universal banks, they are determined to grab as much share of the market as they can before the anticipated big competition takes full effect. (Boabeng, 2009)

Already, big savings and loans players like Procredit, Opportunity, Ezi and up-and-coming ones like Garden City and others, are making efforts to further spread their operations to anywhere that they can find an attractive concentration of economic activity. ProCredit, Ghana's biggest savings and loans company in terms of assets, client base and deposits, currently has 20 branches spread across six of the country's 10 regions and plans to roll-out more outlets this year. The company originally traded as Sikaman Savings and Loans, later changing its identity to ProCredit. This resulted from it becoming part of the ProCredit international group of banks and financial institutions, which comprises of 22 financial institutions and is led by ProCredit Holding AG, a holding company headquartered in Germany. In Ghana, ProCredit currently has more than 170,000 clients and over GH¢31 million in deposits, accounting for nearly 24 percent of the total market share.

Opportunity International Savings and Loans, which emerged from Sinapi Aba Trust – a private non-governmental organisation set up in 1994 to provide microcredit and training to the poorest of the economically active population - currently has 16 branches and accounts for about 12 percent of total deposits in the savings and loans industry. The company's total assets as at the end of December 2008 was GH¢32 million and it currently has over 50,000 borrowers and more than 100,000 deposit account holders. Opportunity International, allocates as much as 93 percent of its loan portfolio to commerce. Only 2 percent of its loanable funds is available for the small scale manufacturing sector. (Agbenorwu, 2011)

Ezi Savings and Loans, like its peers mentioned earlier, also recently underwent restructuring and recapitalisation and changed from its original trading identity of Johnson Savings and Loans to its present name, with a much-broadened scope and mandate. Currently, the company has six networked branches, five in the Greater Accra Region and one in the Ashanti Regional capital, Kumasi, and plans to have a branch in all regional and district capitals of the country by 2015. Ezi Savings and Loans allocates 80 percent. Those in small-scale manufacturing are able to attract 10 percent of Ezi's loanable funds.

Garden City Savings and Loans which has largely dominated the Ashanti regional market with its five branches so far, is resolved to remain the banker of choice for the region's many informal sector players; particularly those in the business of hairdressing, dressmaking, artisans, and other service providers. (Agbenorwu, 2011)

3.0 METHODOLOGY

3.1 Objective of the Study

To identify the relative importance of the marketing mix tools in their application to the service sector of Ghana.

3.2 Sources of Data: The research design for the study is descriptive in nature. The researcher depended heavily on primary data. The required data were collected from three Professional Service Firms (PSF's) namely Millward Brown, KPMG, and ACS in the Greater Accra Re. The study was conducted during the period between May and July 2012 through a structured questionnaire.

3.3 Sampling Size and Procedure: A sample size of sixty (60) was chosen for the study. This comprised of accountants and marketers of the companies.

The research adopted both probability and non-probability sampling methods. A quota of 15 respondents was given to each company. Then the purposive and simple random techniques were used to select the 15 respondents of each company. The purposive technique was used to select accountants and marketers of the companies. This was due to

the category involvement, knowledge and experience. The simple random technique ensured that each respondent stood an equal chance of being selected.

3.4 Variables

Participants were asked to evaluate the importance of 10 variables, identified from the literature on the importance of the elements of Supplier Relationship Management by making five choices for every one of the 10 variables: “extremely important” for the variables which were considered to have the highest importance to the manufacturing sector and “not important” for the variables considered to having no influence on the sector.

4.0 RESULTS AND DISCUSSIONS

This particular section includes the presentation and interpretation of findings on the importance of each SRM element. In order to simplify the analysis, most of the questions with the same answer options are merged.

Table 4.1: The importance of the informal sector in increasing revenue and profits of savings and loans companies

Level of importance		The importance of the informal sector in increasing revenue		The importance of the informal sector in increasing profits	
		Frequency	Percent	Frequency	Percent
Valid	Somewhat important	2	3.3		
	Important	9	15	3	5
	Very important	24	40	12	20
	Extremely important	25	41.7	45	75
Total		60	100.0	60	100

Source: Field Survey

Inferring from Table 4.1, out of the 60 respondents who answered the questions, 2 considered the importance of the informal sector in increasing revenue as somewhat important, 9 considered it as important, 24 considered it as very important and 25 considered it as extremely. Three (3) respondents considered the importance of the informal sector in increasing profits as important, 12 considered it as very important, and 45 considered it as being extremely important. The absolute respective percentages for the former are 3.3, 15.0, 40.0 and 41.7 and that of the latter are 5.0, 20.0, and 75.0.

Table 4.2: The importance of the informal sector in increasing customer loyalty and market share of savings and loans companies

Level of importance	The importance of the informal sector in increasing customer loyalty		The importance of the informal sector in increasing market share	
	Frequency	Percent	Frequency	Percent
Important	8	13.3	4	6.7
Very important	18	30	13	21.7
Extremely important	34	56.7	43	71.7
Total	60	100	60	100

Source: Field Survey

Table 4.2, represents responses from 60 selected managers. Out of the 60 managers who answered the questions, 8 believed the importance of the informal sector in increasing customer loyalty to be important, 18 believed it to be very important and 34 believed it to be extremely important. 4 respondents considered the importance of the informal sector in increasing market share as important, 13 considered it as very important, and 43 considered it as being extremely important.

Table 4.3: The significance of the benefits

Significance	Frequency	Percent
Very significant	17	28.4
Extremely significant	43	72.6
Total	60	100

Source: Field Survey

Table 4.3 represents responses from 60 selected managers in four savings and loans companies namely Procredit, Opportunity International, Ezi, and Garden City Savings and Loans. Out of the 60 managers who answered the question, 17 respondents representing 28.4 percent of the total respondents believed that the benefits of working with the informal sector was very significant, and 43 respondents representing 72.6 percent of the total respondents believed it to be extremely important.

Table 4.4: The sustainability of the benefits

Sustainability	Frequency	Percent
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Sustainable	8	13.3
Very sustainable	18	30
Extremely sustainable	34	56.7
Total	60	100

Table 4.4, represents responses from 60 selected managers from four leading savings and loans companies. Out of the 60 managers who answered the questions, 8 believed that the benefits that savings and loans companies derive from dealing with the informal sector are sustainable, 18 believed it to be very sustainable and 34 believed it to be extremely sustainable. The respective percentages are 13.3, 30, and 56.7.

Table 4.5: The existence of risks in doing business with the informal sector

Responses	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	60	100	100	100
Total	60	100.0	100.0	

Source: Field Survey (2011)

Inferring from Table 4.5, all the respondents were unanimous in the view point that savings and loans companies face risks in doing business with the informal sector of Ghana.

Table 4.6: The risks of doing business with the informal sector

Challenges	Frequency	Percent
Valid Financial risks	37	61.7
Social risks	23	38.3
Total	60	100
Total	60	100.0

Source: Field Survey

Noting from the Table 4.6, the risks of doing business with the informal sector include financial risks and social risks. The absolute percentage of the latter was 38.3 and that of the former was 61.7. This results was not surprising as loan-takers in the informal sector may easily abscond and attempts to take punitive measures to retrieve monies may be deemed by the society to be too harsh.

Table 4.7: The significance of the risks in doing business with the informal sector

Level of Significance	Frequency	Percent
Somewhat significant	26	43.3
Significant	34	56.7
Total	60	100

Source: Field Survey

Table 4.7 indicates the significance of the risks savings and loans companies in Ghana face in doing business with the informal sector. Out of the 60 respondents who answered the question, 26 were of the opinion that the risks were somewhat significant and the last 34 expressed the opinion that the risks were significant. The percentages were 43.3 and 56.7 respectively.

Table 4.8: The possibility of overcoming the risks

Responses	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	60	100	100	100
Total	60	100.0	100.0	

Source: Field Survey (2011)

On the possibility of overcoming the risks savings and loans companies face in dealing with the informal sector, all the respondents indicated that it was truly possible to overcome those risks. This clearly shows the optimism of the managers. The result is as shown in Table 4.8.

Table 4.9: Measures to overcome the risks

	Challenges	Frequency	Percent
Valid	Insisting on collaterals	13	21.7
	Background checks	17	28.3
	Maintaining good working relationships with clients	20	33.3
	Loaning based on the amount clients can pay	10	16.7
Total		60	100.0

Source: Field survey

From the Table 4.9 above, the measures to overcome the risks include that clients provide collateral security, going through a thorough background checks before loans are granted, maintaining good working relations with clients, and loaning based on the amount clients can pay. The respective absolute percentages are 13, 17, 20, and 10.

Table 4.10: Sustainability of the measures

	Level of sustainability	Frequency	Percent
Valid	Sustainable	9	15
	Very sustainable	20	33.3
	Extremely sustainable	31	51.7
Total		60	100.0

Source: Field Survey

Table 4.10 represents responses on the sustainability of the measures that reduces the risks faced by savings and loans companies in their dealings with the informal sector of Ghana. Out of the 60 valid responses obtained, 9 selected sustainable, 20 selected very sustainable and 31 selected extremely sustainable. The respective valid percentages of the responses were 15, 33.3, and 51.7 respectively.

Conclusion:

The informal sector is highly important to savings and loans companies due to the following reasons:

- The benefits of doing business with the informal sector far out-number the associated risks.
- The significance of the risks associated with doing business with the informal sector, span from somewhat significant to significant whilst that of the benefits, span from very significant to extremely significant. In other words the significance of the risks is on the low side when compared to the benefits.
- Management can easily overcome those risks with sustainable measures.
- The relationship between the informal sector and the savings and loans companies in Ghana is a highly positive one and is likely to exist in the foreseeable future.

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