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Credit for What?
Informal Credit as a Coping Strategy of Market Women in Northern Ghana

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Credit for what? Informal credit as a coping strategy of market women in northern Ghana

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Abstract
This paper analyzes the use of informal credit as a strategy to cope with risk by market women in the city of Tamale, northern Ghana. Based on qualitative research techniques, the analysis reveals that the intra-household structure determines these market-based coping strategies. Market women invest a considerable amount of time in maintaining complex credit networks to insure against a loss of trading capital and labor. As a policy implication, this research suggests providing market women with access to formal, reliable and long-term microfinance, both to minimize their exposure to risks and to enhance their ability to cope with risks.

Keywords: Africa, Ghana, informal finance, coping strategies, intra-household allocation, women

JEL Codes: O12, O17, D13

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1. Introduction

Microfinance has been a major topic in both economic literature and development policy for the last ten years. In Ghana, both the government in its poverty reduction strategy and the international donor community promote microfinance as a key strategy to reduce poverty. However, the debate on microfinance in the Ghanaian context often ignores the fact that the implementation of microfinance programs is uneven across space and economic sectors. As a consequence Ghana’s relatively poor northern districts as well as market traders – especially female traders – are disadvantaged in accessing microfinance. For many informal sector entrepreneurs, the only financial services accessible are informal finance. Yet so far the focus on implementing microfinance in Ghana is foremost on the supply side, while small enterprises demanding microfinance services are often overlooked.

This paper addresses the case of market women located in the central market of Tamale, northern Ghana, who are potential future clients of microfinance institutions. More specifically, the paper analyzes the coping strategies that market women employ to insure against risk. The mechanisms of market trade and inherent risk factors are examined, while the impact of political interventions in market trade in the past is also considered. Furthermore, informal financial services are analyzed from the demand side of market women, advantages and disadvantages are contrasted, and the use of informal finance for market businesses is investigated. Given that market women aim to satisfy the consumption needs of their households with their profits from market trade, the interaction between market business and household appears to be important. Hence, household composition and intra-household decision-making processes are explicitly addressed. The paper builds on three branches of the literature – research on informal finance, on risk-insurance, and on market women – and addresses current gaps.

Qualitative fieldwork was conducted in Ghana in 2003. Qualitative data were gathered by combining the techniques of participant observation in the Tamale central market, narrative interviews, the recording of market women’s life histories, focus group discussions and interviews with experts in the microfinance sector. The choice of fieldwork techniques was motivated by the need to understand existing constraints and risk factors that interfere with market women’s businesses, which can hardly be revealed by quantitative analysis.

The paper has three main findings. First, market women employ informal credit relationships as their main strategy to cope with adverse shocks to their trading capital and on their labor. However, this comes at a considerable cost, both in terms of time and interest. Second, informal credit is highly complex with respect to the types of providers, the amount
of credit and the kind of credit contract, ranging from commercial to reciprocal. Third, the intra-household structure with regard to marital ties among spouses and the allocation of decision-making power appears to be a key determinant of market women’s coping strategies. Market women who are the heads of their household and who do not have any marital ties decide independently regarding the use of capital and their children’s labor in their trading businesses and hence have better capabilities to insure against risk compared to monogamously or polygamously married market women. However, this finding is conditional to a minimum of capital endowment, command over their children’s labor, experience in trade and the capability to maintain trading networks.

The paper is outlined as follows: Section two reviews current research and points out how this paper contributes to the literature. The following section provides some background information on the study site, the Tamale central market, and discusses characteristics of traders of this market. Also, state politics regarding market women since the 1970s are briefly reviewed in this section. The research questions and fieldwork methods are described in section four and five, respectively. The three key results are discussed in section seven. The last section concludes and indicates policy implications.

2. Review of Recent Literature

This paper builds on three branches of research, cross-cutting the disciplines of economics and social anthropology. First, recent research on the informal financial sector in developing countries has pointed out the persistence of informal finance both in settings where formal finance is also supplied, and where it is the sole source of finance. A variety of explanations are offered for this phenomenon. Some authors identified push-factors of formal finance, such as credit rationing (Bell, et al., 1997; Mushinski, 1999), the institutional weaknesses of subsidized microfinance programs, which are likely to lead to an allocation of credit based on political patronage (Tsai, 2004), and tightly scheduled repayment schemes of microfinance programs (Jain and Mansuri, 2003). Another explanation might be pull-factors of informal finance. The latter include the advantageous characteristics of informal finance, such as flexibility and convenience (Sanderatne, 2003), the supply of custom tailored financial products (Baydas, et al., 1995), and low transaction costs (Kochar, 1997; Udry, 1990).

A further area of research on informal finance links in with the literature on households’ vulnerability to risk, risk-sharing, and coping strategies. As Fafchamps and
Gubert (2004: 4) have pointed out, there are two alternative ways in which individuals make use of informal credit in order to cope with a negative shock. On the one hand, informal credit may be employed as an *ex post* strategy to smooth consumption. Many studies in this area focus on one particular type of informal finance, namely “quasi”-credit – informal credit among relatives and friends, often without interest. According to Udry, “wherever insurance markets are incomplete, credit markets are known to play an important role by allowing risks to be pooled over time; households borrow more when they suffer an adverse shock” (Udry, 1990: 261). In an early empirical study on informal finance in six Indian villages, Rosenzweig (1988) compares various strategies of consumption smoothing. He finds that households use both familial transfers and informal loans transacted within the village to mitigate the impact of an income shock. While Rosenzweig finds that Indian households prefer the transfers to credit, Fafchamps and Lund (2003) provide evidence from the rural Philippines that informal loans granted within networks of kin and friends are preferred to gifts. On the other hand, informal loans are also transacted in times of smooth production. In such a case, the credit contract itself may be altered as a strategy to deal with a negative shock. For example, Udry (1990) concludes that “repayments *owed* on a loan appear to depend upon the random production and consumption shocks received by both the borrower and the lender” in rural northern Nigeria (Udry, 1990: 261). Given that informal loans are only given within a village because of low monitoring and information costs, such an arrangement does not insure against an aggregate shock affecting all households in the village.

This paper extends the literature on informal finance in two ways. First, Aryeetey and Udry (1995) conclude that there is a need for further localized empirical research on informal finance, given that “the institutional arrangements surrounding financial transactions might display considerable variation across regions and social groups” (Aryeetey and Udry, 1995: 37). Based on original data, this gap is addressed in the following through an in-depth analysis of the use and transaction costs of various types of informal finance by market women in an urban context in northern Ghana. Empirical studies on Ghana have so far focused on the demand for financial services of small- and medium-scale enterprises (SMEs) in the manufacturing sector with one to 140 employees (Aryeetey, et al., 1994) and of SMEs in the export sector (Abor and Bieke, 2006). Both studies look at enterprises that generally have higher levels of formalization, capital endowment, and prospect for growth compared to the trading businesses of market women in this paper. Second, a variety of programs and institutions are currently being implemented to offer microfinance services to poor households in Ghana. While the debate on microfinance in Ghana is largely driven by
concerns for the institutional setup and the design of financial services – in short: on the supply side –, there has been less focus on the demand side of microfinance, with the exception of the above mentioned studies on Ghana. Such an analysis may reveal potential profitable markets for microfinance institutions, particularly as market women have often been overlooked in the past for political reasons, and may also be indicative to the design of microfinance products to custom the needs of potential clients.

The second branch of research concerns intra-household allocation decisions. An early contribution is Chayanov’s study on Russian peasants (1966 [1925]), which is based on the idea that households, quiet different from formal enterprises, adapt their agricultural production output to the consumption needs of household members, which changes during a family’s life cycle. More recently, such unitary household models that implicitly consider the household as an undifferentiated unit with common aims and interests have been rejected in favor of models that incorporate more complex assumptions on the interplay between household members. An alternative approach that incorporates some levels of cooperation and conflict into the interaction of household members are variants of the bargaining model (an overview of these developments is provided by Haddad, et al., 1997). Also, there is a large body of studies that test empirically which model best fits households’ decision-making processes (see for Doss and McPeak, 2005bf.).

It has been argued that there are several possible outcomes of cooperation between household members, some of which are more advantageous to an individual member than others. As a result, individuals use their bargaining power in order to realize a favorable outcome for themselves. According to Agarwal, bargaining power – or a threat point – is defined by “the strength of the person’s fall-back position (the outside options which determine how well-off she/he would be if cooperation failed)” (Agarwal, 1997: 4). Such a threat point is determined by an individual’s command over assets, social norms exogenous to the household, and an individual’s self-perception (Agarwal, 1997). Then again, Lundberg and Pollack (1993) propose a “separate spheres” bargaining model in which a non-cooperative equilibrium within marriage is the threat point, instead of divorce.

Another branch of this literature analyzes the link between intra-household allocation and economic outcome. For example, in his studies on Peru, Wilk (1989; 1990; 1993) shows that the allocation of decision-making power among household members is an important determinant of a household’s economic success. Households in which the head decides patriarchally on the allocation of the common budget are likely to fail economically in the long-term, while households which make this decision jointly were found to have better
economic outcomes. Other studies examine risk sharing of household members. Udry and Conley (2004) find that risk-sharing of households in Ghana’s Eastern Region is incomplete, as individual household members maintain separate insurance networks. Similarly, Doss (2001) concludes that in Ghana, shocks to men’s and women’s incomes have different effects on household expenditure patterns. According to Doss, this suggests that household members may be concerned about their individual long-term access to resources and that membership in a household is one way, but not the only way, to ensure this access.

Building on the findings of the intra-household literature, this paper focuses on the interplay between intra-household structure and individuals’ ability to invest in coping strategies against risk, an area that has received less attention so far. Intra-household structure is understood in the following to include both the marital bonds between household members and the allocation of decision-making power.

The third branch of literature concerns market women in Ghana. Empirical studies, mostly within the disciplines of social anthropology or sociology, have been conducted on market women in Accra (Campbell, 1985; Dinan, 1977; 1976; 1983; Robertson, 1995; Rockslohpapendieck, 1992; Westwood, 1984) and on Asante market women in Kumasi (1989; Clark, 1991; 1994; Clark and Manuh, 1991). A common topic of these empirical studies is their focus on the effects of the economic crisis of the late 1970s and 1980s on market trade (see section 3). While market women were accused by government officials of pillaging goods and worsening the economic crisis, most of the cited studies point out that, on the contrary, market women were severely affected by the economic crisis. This was specifically found to hold true for market women at the retail end of the trade hierarchy. Furthermore, several authors analyzed the impact of structural adjustment programs on market women (Clark, 1994; Clark and Manuh, 1991; Manuh, 1994), finding that despite a changed political and economic framework, market women were still disadvantaged in many regards.

This paper addresses two gaps in the literature on market women in Ghana. First, studies on market women appear to entail a strong bias towards southern and central Ghana. Given the fact that Ghana is characterized by a severe north-south division (see next section), where poverty levels are higher in the north, this paper contributes to identifying causes of persistent poverty in this region. Second, there has not been any recent study analyzing the trade sector under a liberal government and a rather stable economic environment. Field research indicated that stereotypes and negative perceptions of market women persist today,
often overestimating market women’s wealth status. Hence, there is a need to point out constraints, risk factors and poverty traps inherent to market trade today.

3. **Case study background: The Tamale central market**

The city of Tamale is home to almost 300,000 inhabitants, 80 percent of which belong to the ethnic group of Dagomba; about 85 percent of Tamale’s inhabitants are Muslim (Tamale Municipal Assembly 2003: 2ff.). The city’s economy is characterized by its function as a hub in the national road network. As such, Tamale serves as a central point for the aggregation, storage and transportation of the agricultural output of Ghana’s northern districts into the more densely populated south. Today, agriculture is only practiced in the outskirts of Tamale, making it necessary for men and women to earn income through either wage labor or self-employment. Still, wage labor is a limited option for many residents of Tamale, because it generally requires formal education and offers only few job opportunities besides the city administration – for example, Tamale hosts only two large-sized and three medium-sized registered enterprises (ibid.: 4). Thus, self-employment is the main occupation of both men and women with less formal education, with trade as the second most important employment sector in Ghana.³ For women in Tamale, market trade is an important and often the only accessible employment sector.

Tamale has three types of permanent markets: First, there is one large market designed to accommodate large truckloads of agricultural produce. Second, the central market is the oldest market in Tamale; field research was conducted in this market. Lying in the center of the town, this market supplies the city’s population with consumption goods including foods, clothing, household items, medicine and services such as hairdressing, telecommunications and local healers. The central market hosts about 1,500 traders, of whom about 95 percent are female. Finally, there are so-called neighborhood markets in all quarters of Tamale, providing a small range of fresh and canned foods, beverages and everyday supplies.

A striking observation is the segmentation of the Tamale central market traders into three main categories: (1) *Hawkers* – teenage girls or young women trading goods in very small quantities, either by walking around or by supplying the goods from the floor. (2) *Market women* – established traders, mostly women, selling their goods from a fixed stall inside the market. (3) *Wholesalers* – specialized traders, both men and women, organizing the transportation of goods to Tamale, and maintaining business ties with market women, but rarely with consumers. This segmentation goes along with broad categories of capital
endowment: Hawkers appeared to have very small capital endowments, usually less than 20 Euro. Market women have a capital endowment of about equivalent of 100 to 500 Euro, whereas wholesalers operate with a capital of 2,000 Euro or more. Interestingly, the segmentation into these categories appeared to be strict, causing trades to cluster around the three main categories. Thus, an underlying mechanism seems to function as a poverty trap, causing difficulties for traders who wish to cross the lines between these categories. The focus of this paper is on market women, who are a middle category of traders in terms of capital endowment, employment, experience and long standing in trade, and magnitude of networks.

Both through their primary trading activities and incidental side-effects market traders carry out important logistical functions: They link agrarian producers and import companies with consumers, break bulky goods into smaller units appropriate for consumers, process many goods, and contribute to the economy through the payment of market fees and taxes (Mintz, 1971: 248f.). Contrary to their vital economic role, market women have been victims of state repression in the past, a politically induced shock. In a general environment of rising consumer prices and shortages of goods since the 1960s, which further deteriorated in the late 1970s, government officials hold market women responsible for the crisis. According to Robertson, “the market women, because of their visible role, were forced to bear the brunt of public displeasure provoked by shortages in goods, invisible inflation, decline in terms of trade, corruption, and incompetence” (Robertson, 1983: 469). The military government, under J.J. Rawlings, took the most radical steps against market women, including publicly punishing them for price control violations and the confiscation of their goods and private property. Further, a politicized mob was encouraged by soldiers to set markets on fire nationwide between 1979 and 1982. This included the Tamale Central market, which was burned down completely in February 1982, resulting in the disruption of the market trade for several years.

Many of the market women in business suffered a complete loss of their property in goods and of their capital in cash, which many traders used to store in their stalls overnight. The material loss, in addition to emotional stress and fear for life, caused many of the older traders to withdraw from the field altogether. Thus, it was often the daughters of former market women that took over the market in the late 1980s, starting again with very small capital endowments. Local politicians involved themselves in the redistribution of lots in the Tamale central market, favoring their beneficiaries. As a result, market traders formed a heterogeneous group as compared to the situation before the burning of the market.

The repression of market women has two implications for the situation today: First, there is evidence that the repression of market women has lead to a path dependence, as many
of them had to start over from scratch, losing the opportunity to profit from economies of scale in the purchase of goods. Second, local authorities and bank employees expressed their rather negative perceptions regarding market women during interviews, reflecting their reluctance to assist market women.

Lastly, market women in northern Ghana are also affected by Ghana’s strong north-south divide (even though there are also large differences in wealth across urban and rural areas within the northern region of Ghana). McKay and Aryeetey (2004: 18) provide evidence that Ghana reduced poverty in absolute terms between 1991 and 1998, while the incidence of poverty in urban areas in the north increased during this period, although this change is not statistically significant. Stewart and Lange (2006) consider Ghana’s north-south divide as a “persistent horizontal inequality,” arguing that a strong between group inequality exists across regions. These socio-economic inequalities are paralleled by cultural divides, as Ghana’s south is predominantly Christian and has been subject to different influences both in the pre-colonial and colonial periods. Most market women from Tamale receive the goods they sell in their stalls from wholesalers located in southern Ghana; often, the nature of these business ties is a paternalistic monopoly, leaving less bargaining power for northern market women.

4. Research Questions

While the socio-economic wellbeing of most market women is generally higher compared to subsistence farmers, the urban unskilled, and hawkers, market women are still struggling to get out of poverty permanently. Given their generally low endowments of capital, market women of the Tamale central market are vulnerable to frequent negative shocks specific to the trading sector. As a result, their income from trade, and hence the living standard of their households, are quiet volatile. Applying the terminology of Hulme and Shepherd (2003), market women of the Tamale central market may be characterized as transient poor, falling into poverty after a negative shock that results in a loss of capital or labor. The first research question therefore is: How do market women cope with risk factors and negative shocks inherent in market trade?

Similar to many other informal sector entrepreneurs, most market women have access neither to the formal commercial financial sector, nor to microfinance programs. However, a diverse informal finance sector has developed in Ghana that also serves market women. The second research question asks: What informal finance services are accessible to market women, and what functions do these services serve for market women?
Market women in the city of Tamale live in different types of household settings that vary according to the marital ties among spouses and the allocation of decision-making power. Building on the intra-household literature, the third research question is: What is the impact of different intra-household structures on the coping strategies of market women?

5. Fieldwork Methods

Empirical fieldwork was conducted from August to October 2003 in Tamale, Kumasi, and Accra. During the field research, different qualitative techniques were combined. According to Malinowski’s (1922) guideline for anthropological fieldwork, participant observation was carried out in the Tamale central market, thus gathering information on the functioning of market trade. Further, following an approach proposed by Girtler (2001), extensive narrative interviews with ten female and three male traders of the Tamale central market were conducted. About half of the interviews were held in English, while a research assistant interpreted the remaining interviews from Dagbani, Twi and Hausa into English. The average length of interviews was between 30 and 90 minutes. Additionally, the life history of three market women was recorded. Given the fact that these three women had a good command of English, the field data may entail a bias towards more educated market women. Another technique consisted of focus group discussions with four associations of market traders in Tamale, including the Sugulo Mali Nyori Association, Biakoye Youth Association, Smock Weavers’ Association and Denani Youth Association. Lastly, key experts of the microfinance sector as well as executives of financial institutions in both Tamale and Accra were interviewed.

The strength of the qualitative methods applied during fieldwork consist of their ability to reveal profound structures and mechanisms of market trade and further to account for cultural variables that are difficult to measure otherwise, such as the determinants of social standing. Quantitative methods of data gathering were not employed, as market women did not feel confident revealing their business data in questionnaires. This mirrors past experiences of market women, when state authorities enforced strict price controls. As a result, the research results are not representative in a narrow statistical sense but given the extensive fieldwork, the qualitative results are likely to be indicators of general trends. Further quantitative work remains to be done on this issue in collecting household- and firm-level data. Data requirements for such an analysis are very high due to the need to combine intra-household data with firm-level data from market women’s enterprises.
6. Results

In the following, each of the three research questions is addressed in turn.

6.1 Informal lending as a coping strategy

There are several risks inherent in market trade that imply a constant threat to the
continuation of trading businesses and consequently to the income flow into the households of
market women. These risks may occur at an idiosyncratic or covariate level and may entail
various levels of magnitude of a loss. This section analyzes the deliberate strategies that
market women employ to minimize their exposure to risks and to cope ex-post with negative
shocks.

A loss of trading capital or of labor is the worst-case scenario for market women,
having a strong and persistent impact on their businesses. A loss of capital may occur as a
result of shocks in trade, such as theft of goods that have been kept overnight in the market
stall, the confiscation of goods at a border crossing, the breakdown of the relationship with a
wholesaler who provides a market woman with goods on credit, and high or unforeseen
expenses in the household, for example, costs of school fees or medical bills. Risks of a loss
of capital that are rather low in impact but are likely to occur more frequently include the
failure to collect payments for goods that market women sell on credit to their costumers, the
failure to recover money lent to kinsmen, and a loss of capital due to failed applications for
group credit programs offered by semi-formal financial institutions that involve an application
fee. Examples for covariate risks are the shutting down of the Tamale central market by local
authorities for sanitary reasons, plans by the city administration to relocate the central market
into a market hall, which implies a relocation of stalls, and an increase of taxes imposed on
traders.

Illness of a market woman or household members who regularly assist her in the
market may cause a shortage of labor in her trading business. Market women usually manage
to compensate for a sudden loss of a trading assistant in the medium-term by adopting foster
children from relatives into the household. In contrast, a shock that impedes the labor of the
market woman herself may cause the interruption and even the closure of her trading
business. Maria, a seamstress, expressed this in the following way:

KS: “What do you do if you fall sick for some time?”
M: “Then you use your business money to take care of yourself. But if you
put something down for risk, it is very good for when you are sick. You
save that money to treat you. When you are not going to work, nobody will pay you. …”

KS: “Did it ever happen to you that you couldn't work for some time?”

M: “Some time ago, I think I had malaria. For three days, I didn't come to work. And some time ago, they operated me. I didn't come to work for roughly one month. The money I had in the house was the money I spent. And some friends gave me some help. I was staying in the hospital for two weeks and then came home. I had to eat well and sleep well and gain back my body.”

In short, a common experience of market women during their professional history is a decline of their trading businesses at some point in time. Because the goal of their economic enterprise is to satisfy the consumption needs of their households both in the short and long term, market women may not allow their enterprises to go bankrupt at times when the total revenue is negative. Instead, they have to develop coping strategies that minimize risk and facilitate the reconstruction of their enterprise after experiencing a loss.

The first empirical finding is that market women use informal lending as their main strategy to cope with these risks. Like other informal sector entrepreneurs, they have limited or no access to the formal financial sector, including commercial banks and microfinance programs. This is because of several reasons: First, there is credit rationing, which drives poor borrowers out of the market. Second, most market women lack marketable security, which is generally required by formal banks. Third, compared to cities in southern Ghana, Tamale is less developed in terms of infrastructure and supply of services, including financial services. Branches of commercial banks in Tamale appeared to be either unaware of the large demand for financial services or incompetent in designing new financial products tailored to profitably serve informal sector enterprises (also see Bortei-Doku and Aryeetey, 1996: 79). Last, as mentioned above, various post-independence governments made market women scapegoats for the economic deterioration, thereby creating strong negative stereotypes of market women. Even though direct interference of the state in markets has decreased since the 1990s, my field research indicates that both some private sector financial institutions and civil servants are still reluctant to assist market women. As a result, market women in Tamale only have access to the informal financial sector. Informal credit relationships mainly serve as a strategy to cope with a sudden loss of capital and labor as they help to smooth household consumption when income streams from trading business into the household are interrupted. Contrary to expectations, market women rarely use informal credits to enlarge investments in their trading businesses, because the volume of informal credit is relatively low compared to the stock of trading capital of most market women.
The engaging in and maintaining of a variety of informal credit relationships bears considerable cost both in terms of time and interest. Market women invest about one third of their working hours in the market in consolidating personal ties to the providers of informal credit. Furthermore, they aim at continuously borrowing and repaying, thereby following two objectives. On the one hand, by adhering to the repayment schedule, market women communicate information to the informal credit provider on the viability of their businesses and their reliability and trustworthiness. On the other hand, they continuously build up a moral obligation on the informal credit provider to grant them credits in tight situations.

Market women have individual ties to the providers of informal credit but also aim to access credit through groups, locally called associations. The existence of associations in all aspects of social life is a remarkable feature of Ghanaian culture. Associations are especially prominent in the trade sector and may be based (a) on a common ethnic or regional identification of traders, resembling culture clubs, (b) on common goods traded, (c) on a common market, or (d) on a common location of stalls within a market, facilitating market traders to share the costs of a night watchman or to form a Susu group (see section 6.2), among themselves.

However, the character of traders’ associations in Tamale appears to have changed fundamentally within the past ten years. In the past, associations mainly served to gather the traders of certain goods and branches, to organize the transportation of goods from the farm gate to the Tamale central market, to set price arrangements and to represent traders’ interests vis-à-vis local authorities. Today, many associations have as their highest priority the accessing of group credits from the formal and semi-formal financial sector. There were even indicators of an abrupt rise in the formation of new associations in Tamale with the sole goal of qualifying for group credits. This shift in associations’ agendas coincided with the introduction of microfinance schemes by a growing number of non-governmental organizations (NGOs) in Tamale since the mid 1990s, all of which applied the methodology of group lending. As a consequence, market women spend a considerable amount of working hours in attending weekly or fortnightly meetings of associations. Most market women hold membership in several associations, which also implies the payment of monthly fees meant to serve as a loan security in microfinance programs. However, so far only a minor number of associations in Tamale have been successful in accessing credit from microfinance programs. The persistent efforts of market women to access microfinance programs mirrors two aspects: First, microfinance offers the opportunity to borrow larger credits compared to informal credit which market women may use to invest in their actual business, thus potentially increasing
their working capital. Second, market women actively and persistently form associations and apply for group loans because attempts of individual market women to access credit from commercial banks are futile.

Furthermore, market women assume leadership positions in various kinds of activities that may or may not be related to the market – for example, in the committee for conflict mediation in tax issues, in religious organizations or in neighborhood associations. By assuming such responsibilities market women give proof of their respectable social status and trustworthiness and thereby underline their creditworthiness. At the same time they gather information on trade related issues, including political actions of the Tamale Municipal Assembly, activities and programs of NGOs in Tamale, the condition of national roads and transportation capacities, demand for certain consumer goods or the ongoing conflict regarding the traditional political leadership of the Dagomba that caused a state of emergency, which in turn restricted traveling and the transportation of goods. To conclude, the time that market women spend on association meetings and other social activities serves various purposes and generally lowers both risks and transaction costs of trade and strengthens their access to informal credit in the case of a loss of capital.

Other coping strategies of market women to minimize risks, although less important than informal credit networks, include savings, the diversification of goods offered in the market in order to generate predictable everyday cash-flows and the investment in the education of their children as a long-term security for their old-age. Monetary savings are less common, given that it is more profitable for market women to invest savings in their trading businesses. Also, annual inflation was about 26.7 percent in 2003 (IMF 2005). Instead, savings are held as durable consumption goods. For example, cereals are bought in large quantities and the housing rent is paid for a year in advance so that in times of shock, a household’s consumption needs are confined to food. This finding is in accordance with Nyambane (2005), who finds that farmers in the United States “use a combination of several … strategies at the same time. As a result, these strategies interact with one another and often act as substitutes in some cases and complements in others” (Nyambane, 2005: 8).

6.2 Complexity of informal finance

The second finding is that market women maintain ties to a variety of informal credit providers, not limited to the financial sector. The following section assesses the characteristics
of these various types of informal credit and identifies their use for the trading businesses of market women.

Specialized informal finance agents, locally called *Susu Collectors*, supply poor households with short-term and flexible financial products. Susu Collectors have a long tradition in Ghana, while their financial services are still popular among informal sector entrepreneurs and peasants today. This is indicated by the high number of Susu Collectors operating in Ghana, as is shown in table 1.

| [insert table 1 here] |

A Susu Collector visits his customer’s business location every day for a period of one month and collects a fixed amount of money, typically ranging between 0.50 and 1 Euro, depending on the customer’s cash flows. The daily contributions of a customer are recorded in a savings passport. After 31 days, the aggregated amount is paid out to the customer as a lump sum, while the Susu Collector keeps one day’s contribution as a fee for his services. The Susu Collector earns an additional income from either reinvesting his customers’ contributions in short-term projects or from depositing the contributions at a commercial bank, thus receiving positive interest out of the savings account. In contrast, market women who take advantage of the Susu Collector’s savings services receive neither any positive interest, nor any compensation for inflation. However, the same methodology and the same fees incur when a Susu Collector grants a loan to a customer. An amount of money, often drawn out of other customers’ daily contributions, is given to a market woman at the beginning of a Susu cycle and repaid through daily Susu contributions afterwards. Commonly, market women have to save with a Susu Collector for several months in order to give proof of their trustworthiness, as well as their daily cash flows, before they are allowed to borrow.

Market women generally appreciate the confidentiality of the Susu savings, which are secure against the claims of other household members. Also important is the discipline to save that is forced onto them by the Susu Collector, often to buy larger consumption goods. However, the main reason for market women to engage in a relationship with a Susu Collector is the prospect of accessing credit in the case of emergency. The volume of both Susu savings and credit is rather low compared to the average capital of market women at times of usual business. Still, the volume of credit provided by a Susu Collector is sufficient for market women to restart their business after a collapse and further helps to satisfy the consumption needs of their household members until income from trade is regained.
Still, saving with Susu Collectors may entail a risk for market women, as Susu Collectors are not subject to regulation by state authorities. During the field research, two Susu Collectors operating in Tamale went bankrupt. In both cases, the business of Susu Collectors collapsed because they were unable to retrieve loans that they had given out to some customers out of the daily savings contributions of others. As a consequence, more than 300 market women lost both their savings and the opportunity to borrow, i.e. their insurance against a risk.

A further category of informal providers of credit are wholesalers, who grant loans in goods to market women. Even though no explicit interest is charged, the goods have to be repaid at prices per unit that are about 15 percent above the purchase market price, a considerable fee. While loans in goods from wholesalers are the most important type of informal credit for market women after a total loss, this credit relationship reinforces the polarization between market women and wholesalers. This is further emphasized by the fact that most wholesalers are located at Kumasi or Accra in southern Ghana, and are generally of different ethnic origin, speak a different language and are mostly Christian. Given that wholesalers and market women have business ties on the merchandise and credit market – a relationship which Hart (1986) has called “interlocking transactions” – their relationship may be persistent over time, because the information problem and risk of moral hazard are likely to be low. Hence, a wholesaler may allow a market woman to delay repayment of goods if she has been hit by an adverse shock. In contrast, other informal credit providers may be less inclined to allow such contingent repayment. Besides the opportunity to borrow ex post in order smooth consumption, delaying repayment of a loan is hence a second way market women may use informal loans to insure against risk, as has been pointed out by Fafchamps and Gubert (2004: 4). However, business relationships between wholesalers and market women are rather unequal in terms of capital endowment, bargaining power, and ability to find a new business partner in case such a relationship fails. As a consequence, market women have to carefully balance their short-term utility derived from a delay in repayment schedule with their long-term need to maintain such a relationship with a wholesaler. Hence, altering the credit agreement with a wholesaler may be a strategy of last-resort, which bears the risk of losing the relationship – which may aggravate the magnitude of a negative shock.

Market women also maintain mutual obligations including debt to other traders. It is common for market women to gather in Susu groups, referred to as Rotating Savings and Credit Associations (RoSCAs) in the literature. Ranging from five to more than 200 members, Susu groups meet according to a fixed schedule, such as every five days,
weekly or fortnightly. At the meetings, every group member contributes a fixed amount of money into a common pool. Most Susu groups in Tamale hand the common pool over as a lump sum to one member at a time. This process continues until one cycle is completed, i.e. each member of the Susu group has received the lump sum once. In principle, the lump sum functions as a loan that members repay through their contributions to the pool until the end of the credit cycle. Yet for the individual who receives the lump sum last, it is similar to her aggregated savings. While this is the most common form of Susu groups, there are also different arrangements of Susu groups who only save until a pre-defined goal is reached – for example, buying one cooking pot for each member. Each Susu group has its own customs for the succession of the distribution of money. These include the seniority principle, a lottery or personal needs of members. Besides the opportunity to obtain a loan once in a credit cycle, members of a Susu group also help each other individually with loans in times of a shock.

Lastly, market women have credit ties with friends and relatives both inside and outside the household. Again, the size of these loans, both monetary and in kind, is rather small for the ongoing trading business. While generally neither interest nor fees are charged, these ties are based on generalized and balanced reciprocity, depending on the degree of kinship. Good reputation again serves as loan collateral in all types of reciprocal credit relationships. However, market women aim to keep borrowing from husbands and kinsmen to a minimum and rely on this type of informal credit mostly in emergencies to smooth consumption of their households. They argued that borrowing from kinsmen and husbands often leads to disproportional reciprocal claims on goods from their stalls and cash, which they find hard to deny, but which interfere with their trading businesses.

In short, market women maintain a complex network of informal finance providers who differ considerably in terms of types of providers, fees, and volume of credit. Informal finance may include savings or loans or both, it may be monetary or in kind, and it may involve operators of different geographical localities and of different social standing. Furthermore, the kinds of credit contract range from reciprocity to commercial finance. Market women aim to combine multiple savings and credit contracts in order to reinsure their access to informal credit in the case of emergency. This is due to the fact that informal credit providers themselves may be subject to risk.

These empirical findings contrast with current literature in two ways. First, the finding of a rather limited use of kinship networks for informal credit contradicts other empirical studies that provide evidence that informal credit is largely extended among networks of family and friends (Aryeeetey and Udry, 1995: 35f.; Azam, et al., 2001; Fafchamps and Lund,
2003; Udry, 1990). One explanation for this different finding may be the relative wealth differentials: While many of the above-cited studies focus on rural settings with generally moderate differences in wealth, such differentials are likely to be much higher in an urban context, such as Tamale. Market women complained that their success in trade business attracted many poorer relatives both from Tamale and rural areas, who pointed towards common kinship ties in order to claim assistance. It appeared to be a balancing act for market women to both accommodate the needs of relatives, respecting their societal obligations, and safeguarding their working capital in order to secure the livelihood of their own households.

Second, this paper contrasts with the studies of Udry (1990) and Kocher (1997), which provide evidence of low transaction costs of informal finance. Instead, this paper reveals that informal credit for market women entails considerable transaction costs in terms of working hours and interest, even though these differ between the different types of informal credit. However, it is less the transaction cost of individual informal credit arrangements, but rather the whole bundle of informal credit networks that amounts to considerable transaction costs. These investments in insurance against risk present a barrier to growth for the enterprises of market women.

### 6.3 Intra-Household Allocation and Coping Strategies

The impact of different intra-household settings on market women’s vulnerability to risk are analyzed in this section. In Tamale, there are four main types of household settings with regard to the marital status of spouses:

1. Households consisting of a monogamous couple, their children, and possibly other relatives,
2. Households consisting of polygamous spouses, including one husband and two or more wives, their children, and possibly other relatives,
3. Female-headed households consisting of a polygamously married wife, who lives with her children and possibly other relatives in a separate household apart from her husband, and
4. Female-headed households consisting of an unmarried, separated, divorced or widowed woman, her children, and possibly other relatives.

Table 2 indicates some general trends in the distribution of marital status of female-headed urban households in the Northern Region as a whole, of which Tamale is the capital.
Note that the categories for marital status given in the table do not precisely correspond to the household settings found in Tamale. In general, children may be either a biological child or a foster child (a common practice in West Africa). The household is a flexible concept in the local context: Not all spouses of a polygamous marriage and their biological children may live jointly in one household, while it also comprises individuals from the larger kin group.

It has been argued in the literature that Ghanaian spouses typically pursue separate economic activities, keep their incomes separate in order to pay for the household expenses traditionally assigned to their status (Clark, 1994; Robertson, 1976), and participate in separate insurance networks (Udry and Conley, 2004). This paper confirms these observations, finding that spouses in most cases do not join in pursuing one trading business, even if both spouses operate trading businesses within the same market. In the Dagomba society, to which the majority of Tamale’s population belongs to, it is traditionally the responsibility of the husband to provide shelter and stable food, such as maize, yams and cassava, for his household. Wives, on the other hand, are obliged to grow vegetables and spices as supplements for the dishes and raise small livestock. Today, not only the sources of income, but also the types of expenses have altered compared to the traditional Dagomba ideal of agricultural homesteads. About half of Tamale’s population now lives in houses made out of cement or sandcrete (Tamale Municipal Assembly 2003: 7), implying considerable costs of construction, while also electricity, water, and gas cartridges have to be paid for. Lastly, there are expenses for children’s education, including tuition fees, school materials and uniforms.

As a consequence, husbands and wives often get into conflict over their contribution to the household budget. All married market women who were interviewed during field research stated unanimously that their husbands provided for housing and for stable cereals, while market women regarded it part of their own responsibility to buy vegetables, meat, and clothing for themselves and their children. In contrast, there are several practices to pay for electricity, water, and gas. Wives who live in separate households in polygamous marriages generally appeared to be the most disadvantaged, as they had to cover these expenses themselves. A further struggle among spouses over general household implements, especially kitchen utensils, and children’s education expenses caused the most severe conflicts in polygamous marriages, where wives competed for the benefits of their own children. Also, there are different common practices regarding the husband’s contribution to the evening meal. In monogamous marriages, it is the wife who prepares the evening meal for all household members, while wives in polygamous marriages often cook the evening meal.
separately for themselves and their children. In the latter case, the husband takes his meal from one wife at a time. While most husbands contribute a small amount of money daily to help the women pay for the ingredients (locally called *chop money*), market women are in general not satisfied with the amount they receive. This is especially true for market women living in polygamous marriages, who only receive a contribution from their husband the particular day he eats with that wife.

Spouses not only struggle over intra-household responsibilities, but they also compete for the labor of their children. As mentioned above, market women invest about one third of their working hours at the market in the maintenance of informal credit and social networks as a strategy of securing their enterprise against a loss. Market women thus have to rely on assistants to carry on with the business during their absence. Preferably, this would be done by their own children, who at the same time acquire the skills of trading. While the market hours are between 9 am and 6 pm daily, with the highest turnover of customers between 11 am and 2 pm, market women are free to determine their presence in the market. However, it is especially important for those offering relatively expensive goods with rather infrequent cash flows to regular customers to keep their stalls open for long hours. Children also act in place of market women during the Muslim prayers.

Great importance is attached to the proper preparation of evening meals, which is an important feature of a respectable social status for Dagomba women. Some popular local dishes consist of Fufu – cooked, mashed and pounded yams and cassava – which is served with a sauce of vegetables, meat or fish. The manual mashing of yams requires physical strength, while it is also very time-consuming. However, both the preparation and the eating of meals, often with guests, take place in the courtyard. Therefore, the way a woman handles her cooking duties communicates information concerning her traditional values and respectability to guests, neighbors and passers-by. Market women have diverse strategies to both maximize their working hours in the market while at the same time fulfilling their social duties. Most often, a market woman sends one daughter home to start preparing the meal before 3 pm, while she herself continues with business until 5 pm and merely finishes the dish, such as adding the final flavors. In contrast, lunch and even breakfast are often not prepared at home, but bought at the market. Hence, a line of industry has developed within the Tamale central market that specializes in catering snacks and beverages for market women.

In short, children play a prominent role as assistants to their mothers in both household duties and market trade. However, it appears that school enrollment is higher among children
of market women as compared to general school enrollment rates for Tamale of 85.3 and 52.6 percent at primary and junior secondary schools, respectively (Tamale Municipal Assembly 2003: 4). Market women consider an investment in the education of their children as a long-term security against sickness in their old age. This strategy is even more plausible given the fact that neither pension schemes nor secure long-term savings services are available to market women. Market women have to rely on inter-generation contracts, building on a long-term generalized reciprocity. Hence, it is popular for market women without children, or for those with only a few children, to adopt foster children from kinsmen. While market women not only assume responsibility to nourish and dress foster children, it is also common to bear the expense of the children’s education. In turn, foster children help out in the market enterprise and have a moral obligation to care for their foster mothers during old age.

To conclude, husbands generally hold more bargaining power in conflicts about the distribution of financial responsibilities within the household or the command over their children’s labor. This is for several reasons. Due to their higher social standing, ascribed to them by both religious and cultural norms, it is easier for men than for women to divorce and to remarry younger women. Furthermore, men tend to be more mobile geographically, often leaving their children with their mothers or other relatives. Migration to the south has been appealing for men from Tamale since the colonial era, due to better employment opportunities in plantations, mining, and the informal sector of the capital Accra (Hart, 1973: 88). The marital history of market women interviewed during field research indicates that marriages are rather unstable over time. Using the terminology of Agarwal (1997), men have a more advantageous “fall-back position” than women, both because social norms allow men larger scope of action, and because of their more favorable prospects to sustain themselves economically if marriage fails.

In summary, the design of the intra-household structure exerts a substantial influence on market women’s ability to cope with risk. Women heading their own households may decide autonomously on deploying their children's labor as well as monetary inputs, thus combining production and consumption decisions similar to peasant households (for example, Chayanov, 1966 [1925]). These techniques allow women who head their households to make optimal use of business opportunities, even if market women have to bear all expenses of the household out of their income from trade. As those women exercise decision-making power over the allocation of the household budget, they may invest more in their children’s education. However, there are strict requirements for women who head and nourish their own
households to be successful in trade. These include a minimum capital of about 500 Euro, the command over their children’s labor to assist in trade and household duties, experience in trade, and social capital to maintain extensive informal credit networks. Assuming that these conditions are present, field research indicates that market women living in female-headed households have better abilities to cope with risk and are therefore less vulnerable to poverty. While about 22.3 percent of urban households in the Northern Region were female-headed in 1997 (GSS 2001), clearly not all female-headed households fulfilled these conditions. However, this finding is rather contrary to the poverty literature that often finds female-headed households to belong to the most deprived categories of households.

In contrast, market women who share a household with their husband may not freely deploy either their children’s labor or monetary inputs to best respond to business opportunities. Consequently, given that they are more likely to encounter constraints in pursuing their trading enterprise, those market women have fewer capabilities and resources to invest in coping strategies. As a result, they are more vulnerable to poverty. Given that they exercise less decision-making authority than their husband, these women have the incentive to minimize their contribution to the household budget. Saving with Susu Collectors is a popular strategy of market women to hide their daily cash flow from household members. As a result of this household structure, the standard of living between spouses of a polygamous marriage may differ to a certain degree according to each spouse’s success in business.

7. Conclusions

This paper explored the use and characteristics of informal credit as a coping strategy in the economy of market women in the central market of Tamale in northern Ghana. Using qualitative research techniques, the paper revealed that market women use informal credit as their main strategy to insure against risk. A second finding is that informal finance accessible to market women is complex in terms of types of providers, interest, and volume of credit. Given that the volume of informal credit is relatively low compared to the average working capital of market women, informal credit is less useful in the ongoing business. As a third finding, the intra-household structure was identified to be an important determinant for market women’s ability to cope with risk, which in turn has an impact on their vulnerability to poverty.

Three policy implications can be derived from this research. First, providing market women with access to formal, reliable, long-term financial services, including microfinance,
may assist them to permanently raise their working capital. This in turn is likely to decrease their exposure to risk. Other studies have provided evidence that different types of finance serve different purposes. For example, Aryeetey and Udry (1995) find in their study on Ghana that “the variation in the types of informal financial units derives from the fact that such units are purpose-oriented” (p. 23). Barslund and Tarp (2006: 6-8) show that in the setting of rural Vietnam, formal credits are merely used for enhancing production as well as asset accumulation, while informal loans are more likely used in the case of household shocks or unforeseen events, such as health expenditures. Hence, in the absence of insurance markets, it is likely that market women will continue borrowing from informal sources. Instead, access to microfinance and informal finance are likely to complement each other in future, as they are serving different purposes. Second, the research findings suggest that the maintenance of informal credit networks may be used as an alternative to titled credit security in formal microfinance programs as it indicates market women’s social capital, long-term experience, and success in trade. Third, there is a demand for micro insurance schemes, which may provide market women with a less expensive strategy to cope with risk, while at the same time the living standard of their household may rise. Given the entrepreneurial and dynamic spirit that the nature of the trading business requires, market women represent an economic group that has a high potential to overcome poverty permanently.
Appendix

Table 1: Characteristics of Susu Collectors in Ghana

<table>
<thead>
<tr>
<th>Region</th>
<th>Number of Susu Collectors</th>
<th>Average Number of Costumers per Susu Collector</th>
<th>Total Number of Costumers of all Susu Collectors</th>
<th>Average daily Contribution per Customer*</th>
<th>Total Sum of Savings Mobilized Daily by Susu Collectors*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Urban</td>
<td>1,848</td>
<td>250</td>
<td>462,000</td>
<td>1.50 €</td>
<td>694,388 €</td>
</tr>
<tr>
<td>Peri-urban</td>
<td>1,564</td>
<td>200</td>
<td>312,000</td>
<td>1.00 €</td>
<td>312,625 €</td>
</tr>
<tr>
<td>Rural</td>
<td>620</td>
<td>100</td>
<td>62,000</td>
<td>0.50 €</td>
<td>1,052 €</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>4,032</strong></td>
<td>–</td>
<td><strong>836,000</strong></td>
<td>–</td>
<td><strong>1,008,066 €</strong></td>
</tr>
</tbody>
</table>

(Source: GCSCA 2003: 4)

*own calculations, based on the official exchange rate of the Ghanaian Cedi as of August 2003 (9,980 GHC/Euro)

Table 2: Marital Status of Female-Headed Urban Households in the Northern Region

<table>
<thead>
<tr>
<th>Marital Status</th>
<th>Percentage of Households</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single</td>
<td>15.5</td>
</tr>
<tr>
<td>Monogamous</td>
<td>43.8</td>
</tr>
<tr>
<td>Polygamous</td>
<td>16.3</td>
</tr>
<tr>
<td>Widowed/Divorced/Separated</td>
<td>24.5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100.1</strong></td>
</tr>
</tbody>
</table>

(Source: GSS 2001: 73)
Bibliography


Endnotes

1 In the following, microfinance is understood to encompass financial services offered by formal and semi-formal institutions, in contrast to informal finance institutions, which are neither registered nor regulated by the state and hence lack legal mechanisms to enforce repayment of credit (see Vogel and Adams 1997).

2 This term was originally invented by Platteau and Abraham (1987).

3 McKay and Aryeetey (2004: 20) quantify employment across economic sectors in Ghana and find that 18.6 percent of the adult population in 1998 was employed in wholesale and retail trade. Although these figures have to be considered with caution due to measurement difficulties, invisibility, and illegality of much of these activities, the figure gives a good indication of the sheer size of the trading sector.

4 Interview with Maria in the Tamale central market, 01.09.2003.

5 Bascom (1952) and Marfo (1996: 16) present evidence that Susu was originally invented in Ghana by Yoruba traders from present-day Nigeria.

6 For a more detailed discussion of women’s participation in Susu groups in Ghana, see Bortei-Doku and Aryeetey (1996), who come to similar conclusions on women’s motivation to join rotating Susu groups (p. 81f.).