

## ACCESS TO CREDIT AND ITS IMPACT ON BUSINESS GROWTH OF STREET VENDORS IN MADURAI

D. Angel<sup>1</sup> and S. Theenathayalan<sup>2</sup>

### ABSTRACT

Street vending contributes significantly to urban economic activity by meeting the daily needs of city dwellers through accessible and low-cost goods and services. This study examines the role of credit access in influencing the business growth of street vendors in Madurai City from 2022 to 2024. Using primary data from 60 street vendors, it investigated whether access to formal and informal credit affect the vendors investment decisions, sales, and profitability. The study found that vendors with access to formal credit sources (banks, microfinance, SHGs) experienced significantly higher business growth compared to those relying solely on personal savings or informal loans. Female vendors, in particular, faced greater barriers to formal credit access, which correlates with lower expansion and income levels. The findings suggest that improved credit infrastructure and targeted financial support can significantly enhanced street vendor livelihoods. The study concluded that access to credit played a decisive role in determining the business growth of street vendors in Madurai City. Vendors with access to formal credit sources such as banks and Self-Help Groups showed better performance in terms of increased stock levels, higher daily sales, and business expansion. In contrast, those relying on informal lenders, family borrowing, or personal savings experienced limited growth due to insufficient capital and high interest burdens. Gender-based disparities further restricted women vendors access to institutional finance. The findings highlighted the need for inclusive credit policies, simplified lending procedures, and targeted financial support to promote sustainable growth and financial stability among street vendors.

(Key words: Street vendors, credit access, business growth, informal economy, financial inclusion)

### INTRODUCTION

Street vendors form an essential segment of the urban informal economy in India, providing vital goods and services at affordable prices. In cities like Madurai, street vending contributes to employment, sustains urban demand, and supports local economic circulation. However, vendors often struggle with limited capital, unstable income, and restricted access to formal financial services. Access to adequate credit is recognized as a critical factor in enabling vendors to invest in stock, improve infrastructure, and respond to demand fluctuations. While many vendors rely on personal savings and informal lenders, the impact of formal credit on business performance remains underexplored (Sekhar, 2017). This study aimed to assess how access to different credit sources influences business growth among street vendors in Madurai. Street vending holds particular importance due to the city's cultural, religious, and commercial significance. This self-employment strategy of the rural and semi-urban women for livelihood and poverty alleviation is not acknowledged and almost unseen (Nikina, 2025). Additionally, dense commercial areas,

bus stands, railway stations, and market zones provide favourable locations for vending activities.

Agarkar *et al.* (2023) stated that financial inclusion as key to sustainable growth, noting limited access to formal finance among low-income groups. Street vendors, being highly vulnerable, need affordable financial services to grow as entrepreneurs. Most vendors rely on personal savings or informal lenders, which restricts their ability to invest, expand operations, and improve income levels. The absence of institutional financial support, lack of awareness of credit schemes, and procedural difficulties further worsen their economic condition, especially for women vendors (Kabeer *et al.*, 2020). As access to credit plays a crucial role in business growth and sustainability, there is a need to examine how different sources of credit affect the business performance of street vendors in Madurai City with the objectives to identify the sources of credit accessed by street vendors in Madurai and to analyze the relationship between credit access and business growth indicators. Women's participation in this informal sector affords self-employment opportunities with minimal capital investment, flexibility to balance household

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1. Asst. Professor, Dept. of Economics, Lady Doak College, Madurai-625002
  2. Assoc. Professor & Head, Dept. of Economics, The Madura College, Madurai-625011

responsibilities, and a pathway out of poverty (Rani and Reddy, 2015).

## MATERIALS AND METHODS

The study adopted a descriptive and analytical research design to examine access to credit and its impact on the business growth of street vendors in Madurai City from 2022 to 2024. The target population consisted of all registered and unregistered street vendors operating in major commercial areas such as Meenakshi Amman Temple surroundings, Periyar Bus Stand, Anna Nagar, and South Masi Street. A sample size of 60 (38 male and 22 female) street vendors was selected for the study to ensure manageability and adequate representation. The stratified random sampling technique was used, with vendors stratified on the basis of gender (male and female) to capture gender-wise differences in credit access and business growth. Primary data were collected through a structured interview schedule, as many vendors had limited formal education. This sampling design ensured reliability, reduces bias, and allows meaningful comparison between different categories of street vendors. Variables Studied were sources of credit, personal savings, family borrowing, informal lenders and formal credit (bank/SHG) (Chen, 2018).

### Chi-Square test interpretation

To statistically examine the relationship between credit access and business growth indicators, a Chi-square test of independence was applied. The null hypothesis ( $H_0$ ) stated that there was no significant association between access to credit and business growth, while the alternative hypothesis ( $H_1$ ) stated that credit access significantly influenced the business growth.

### Chi-Square test formula

$$\chi^2 = \sum \frac{(O-E)^2}{E}$$

$\chi^2$  = Chi-square test statistic,  $O$  = Observed frequency,  $E$  = Expected frequency,  $\sum$  = Summation of all categories.

### Formula for expected frequency

$$E = \frac{(\text{Row total} \times \text{column total})}{\text{grand total}}$$

Degrees of freedom:  $df = (r - 1)(c - 1)$

Where:  $r$  = number of rows and  $c$  = number of columns

## RESULTS AND DISCUSSION

### Sources of credit accessed

Table 1 showed the distribution of credit sources accessed by street vendors in Madurai City. Informal lenders constitute the most frequently used source of credit (23

respondents), indicating immediate credit needs despite high interest rates. Percentage analysis showed that 38.3% of vendors relayed on informal lenders, reflecting financial stress and limited formal access. Formal credit from banks or SHGs accounted for 26.7%, with male vendors showed relatively better access than female vendors. Family borrowing (16.7%) and personal savings (18.3%) remained supplementary sources. Cross-gender comparison revealed that female vendors were more dependent on informal credit, increasing vulnerability. Overall, the analysis highlighted significant financial exclusion and underscored the need for institutional credit expansion to support sustainable business growth.

### Sources of credit accessed by street vendors

The study clearly explained that the pattern of credit access among the 60 street vendors surveyed in Madurai City. Out of the total respondents, 23 vendors (38.3%) depend on informal lenders, making it the most dominant source of credit. This reflected on the urgency of capital needs and the ease of obtaining loans without formal procedures, despite high interest rates. Formal credit from banks and Self-Help Groups was accessed by 16 vendors (26.7%), indicating partial financial inclusion, with male vendors (10) having better access than female vendors (6). Personal savings were used by 11 vendors (18.3%), suggesting limited capital accumulation among vendors. Family borrowing accounts for 10 vendors (16.7%), served mainly as a short-term or emergency source. Overall, the numerical distribution highlighted the vendors heavy reliance on informal credit and underscores the need for improved access to affordable institutional finance.

### Increase in income

The study revealed a clear relationship between credit access and increase in income among street vendors in Madurai City. Out of 16 vendors who accessed formal credit, 13 vendors (81.3%) reported a noticeable increase in daily income, mainly due to higher investment capacity and better stock management. Among the 23 vendors relying on informal lenders, only 12 vendors (52.2%) experienced income growth, as high interest costs reduced net earnings. In the case of family borrowing, 5 out of 10 vendors (50%) showed moderate income improvement. Vendors depending on personal savings recorded the least growth, with only 2 out of 11 vendors (18.2%) reporting increased income. This numerical evidence highlighted the positive impact of institutional credit on income enhancement.

### Increase in income through formal credit

Formal credit plays a significant role in enhancing the income of street vendors in Madurai City. Out of the 16 vendors who accessed formal credit through banks or Self-Help Groups, 13 vendors (81.3%) reported a clear increase in daily income after obtaining the loan. The availability of adequate capital enabled these vendors to expand their product range, purchased goods in bulk at lower prices, and improved vending infrastructure. Only 3 vendors (18.7%) reported no significant income change, mainly due

to small loan size or delayed utilization. The findings confirmed that formal credit, with lower interest rates and flexible repayment terms, substantially improved income stability and business performance among street vendors.

The Table 2 clearly demonstrated a strong relationship between access to credit and business growth indicators among street vendors in Madurai City. Vendors who accessed formal credit showed the highest levels of business growth across all indicators. Out of 16 formal credit users, 12 increased their stock levels and 11 reported higher daily sales, indicating effective utilization of institutional finance. Nearly 56% of these vendors achieved business

expansion, highlighting the positive impact of structured credit on growth.

In comparison, vendors dependent on informal lenders showed moderate growth, mainly due to high interest burdens that limit reinvestment capacity. Vendors relying on family borrowing and personal savings exhibited minimal growth, as these sources provided limited and irregular capital. Using comparative and percentage analysis, the findings confirmed that formal credit access significantly enhanced stock capacity, sales volume, and expansion potential. This established credit access as a critical determinant of business growth in the street vending sector.

**Table 1. Distribution of despondences based on sources of credit accessed (N=60)**

Sr. No	Source of credit	Male vendors	Female vendors	Total	Percentage
1	Personal savings	8	3	11	18.3
2	Family borrowing	6	4	10	16.7
3	Informal lenders	14	9	23	38.3
4	Formal credit (Bank/SHG)	10	6	16	26.7
	<b>Total</b>	<b>38</b>	<b>22</b>	<b>60</b>	<b>100.0</b>

**Source:** Data collected from field interviews

**Table 2. Relationship between credit access and business growth indicators (N=60)**

Sr. No	Credit access type	Increase in stock	Increase in daily sales	Business expansion	Total vendors
1	Formal Credit (Bank/SHG)	12	11	9	16
2	Informal lenders	9	8	5	23
3	Family borrowing	5	4	2	10
4	Personal savings	4	3	1	11
	<b>Total</b>	<b>30</b>	<b>26</b>	<b>17</b>	<b>60</b>

**Source:** Data collected from field interviews

**Table 3. Chi-Square test result**

Particulars	Value
Calculated Chi-Square value ( $\chi^2$ )	9.84
Degrees of freedom	3
Table value at 5% level	7.81
Level of significance	0.05
Result	Significant

Since the calculated  $\chi^2$  value (9.84) was greater than the table value (7.81) at the 5% level of significance, the null hypothesis was rejected. This confirms that there was a significant association between access to credit and business growth among street vendors in Madurai City. This result indicated a statistically significant association

between the type of credit accessed and business growth indicators such as increase in stock, daily sales, and business expansion.

The test confirmed that vendors who accessed formal credit sources (banks/SHGs) experienced significantly better business growth compared to those relying on informal lenders, family borrowing, or personal savings. Thus, access to institutional credit played a crucial role in enhancing business performance and sustainability among street vendors in Madurai City.

#### **Policy implications**

Tiasoba and Odyuo (2024) studied plantation agriculture by identifying structural and economic challenges faced by small tea growers in Nagaland. It helps the findings of the study that important policy implications for improving the livelihoods of street vendors in Madurai City. Since access to formal credit has a significant positive impact on business growth, policymakers should prioritize the inclusion of street vendors within the formal financial

system. Banks and microfinance institutions should design simplified loan products with minimal documentation and collateral requirements tailored to the needs of informal workers. Special attention should be given to women street vendors by introducing gender-sensitive credit schemes and strengthening Self-Help Groups (SHGs). Additionally, financial literacy and credit awareness programs should be implemented to educate vendors about available schemes and responsible borrowing. Municipal authorities and financial institutions must work together to create an enabling environment that supports sustainable business growth, income stability, and economic security for street vendors.

The study concluded that access to credit played a decisive role in determining the business growth of street vendors in Madurai City. Vendors with access to formal credit sources such as banks and Self-Help Groups showed better performance in terms of increased stock levels, higher daily sales, and business expansion. In contrast, those relying on informal lenders, family borrowing, or personal savings experienced limited growth due to insufficient capital and high interest burdens. Gender-based disparities further restricted women vendors access to institutional finance. The findings highlighted the need for inclusive credit policies, simplified lending procedures, and targeted

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