Access to micro-credit well-being among women entrepreneurs in the Mfantsiman Municipality of Ghana

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Abstract

Less attention has been given to well-being and other household characteristics that influence clients’ access to micro-credit among women households especially. The paper investigates the determinants of access to credit by 320 women entrepreneurs in the Mfantsiman Municipality in the Central Region of Ghana. Data for the study was collected in June-July 2010 from six communities including Mankessim, Saltpond, Anomabu, Birwa and Yamoransa. Structured questionnaires were used to collect the data from women entrepreneurs. The results of the study indicate that clients’ well-being influences access to credit amount. Clients who have been in business for long time are likely to access larger loan amounts. Marital status and education do not influence access to credit. Among the recommendations are that microfinance should not only target clients with high well-being scores but those with low well-being scores since the original aim of microfinance is to lift the poor out of poverty. It is important to give credit to aged business owners instead of young ones. Giving credit to married women because their husbands could serve as guarantors does not matter much but rather women who do not have husbands also need to benefit from micro-credit.

Keywords: micro-credit, microfinance, MFIs, women entrepreneurs, well-being

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1. Introduction

The third of the Millennium Development Goals (MDGs) seeks to promote gender equality and women empowerment. This goal has as one of its indicators as monitoring the share of women in wage employment in the non-agricultural sector (World Bank, 2006). The implication is that gender equality and women empowerment are essential and integral component of pro-poor development and civil society strengthening. One of the ways of making women more productive is through entrepreneurship. Entrepreneurship has the potential to increase the share of women in wage employment in the non-farm activities. The Global Entrepreneurship Monitor (GEM) reports that increasing the number of women entrepreneurs involved in starting new businesses and expanding existing ones are critical to a country’s long-term economic growth (Kelly, Bosma & Amoros, 2010). Indeed, international comparisons highlight that the world’s most entrepreneurial economies have a high representation of female entrepreneurs.

The population distribution in Ghana shows that more than half of the population is women. Men engage in several economic activities as compared to women who constitute the largest of the population though (GSS, 2008). The condition that most women in Ghana find themselves in with regard to employment is not different from that of other countries especially in some Islamic dominated communities such as Bangladesh. This imbalance has implications for economic growth and development of the country. Of late, many women are becoming entrepreneurs basically generating business ideas and establishing their own businesses. The role of the entrepreneurs can be recognized at the local, district and the national levels of every economy. Entrepreneurs also contribute to the economic growth and development of every country through provision of employment, income generation and creation of wealth.

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creation of wealth reduces the number of people living on less than one dollar or two dollars a day. At the local level, they offer employment to family members and other close relatives even though they may be unpaid; those employed by their relatives are catered for on daily basis, meaning they are receiving wages in kind. At the district level, entrepreneurs come together to form social, political, occupational and religious networks necessary for socio-economic development. At the national, level they contribute to gross domestic product. For example, the link between economic growth and entrepreneurship has long been studied and evidence suggests that increased entrepreneurial activity leads to greater economic growth. Reynolds, Hay, and Camp (1999) show that a country’s level of entrepreneurial activity explains a significant portion of the differences in national economic growth rates. In addition to the national link between entrepreneurship and economic growth, some studies have focused more attention on the local level. According to Henderson (2002), entrepreneurs significantly impact local economies by fostering localized job creation, increasing wealth and incomes, and ultimately helping to connect local economies to the larger global economy. Entrepreneurs also have the capacity to boost economies through innovations which leads to economic growth and development. For example in Kenya, Harding and Harding (2008) report that entrepreneurs produce innovation, by providing a route for women to engage to a greater extent in labour market and through the investment from abroad that they attract and facilitates job creation and economic development from the bottom-up.

Microfinance institutions (MFIs) traditionally rely on committees to screen potential clients for credit. This subjective, case-by-case approach to loan approval is time consuming and unlikely to draw the line of creditworthiness at the most advantageous level for the MFI. For these reasons, MFIs have begun turning to credit scoring as a more systematic and accurate decision mechanism. Credit scoring uses an applicant’s business and personal characteristics and history to determine loan approval and can be calibrated to fit a particular financial institution and its clients. Credit scoring invariably tries to look at the well-being of clients taking into account clients’ socio-economic characteristics and credit record (Wright, 2004).

The impact of micro-credit on welfare of clients has extensively been researched into but there is little evidence in the literature that provides the impact of well-being on access to credit since there seem to be a bi-causal relationship between micro-credit and clients’ well-being\(^1\). Well-being in this paper is economic well-being and it is not synonymous with poverty levels because well-being itself includes poverty. Well-being also encompasses capability and functioning of the individual but in this paper it has been used in its simplest form to mean what makes the life of the individual worth living. The use of this indicator is very important from the MFIs point of view if they want to minimize the adverse selection and delinquency problems in credit delivery. We argue that the well-being of clients will serve as a basis for justifying credit approval where physical collaterals are not demanded. Again well-being of clients has the potency of minimizing the moral hazard effects that contaminate contracted loans. Moving away from the use of traditional poverty indices to explain access to credit by clients and controlling for non-clients in the sample we show that all things being equal clients well-being scores significantly influence credit amount.

Empirical analysis relies on data from 320 women entrepreneurs in the Mfantsiman district in the Central Region of Ghana. The contribution of this paper is that well-being scores are used to estimate demand for credit contrary to traditional poverty scores and interest rates. This is because in selecting clients for credit approval, institutions’ focus is on economically active clients who can profitably use borrowed amounts; meaning well-being of clients is important in determining how economically active clients are. In this study interest rate has been ignored for two reasons: 1. clients do not really care about interest rates when they are in dire need of credit (clients are insensitive to interest rates) and 2. The data used is cross-sectional and interest rate will therefore not vary. The study therefore proposes that clients’ well-being be used as an indicator for selecting clients in granting loans.

The estimation procedure is done as follows: in the first stage we generate the well-being scores for the entire sample (clients and non-clients), the second stage regresses well-being scores and household characteristics on credit amount to determine which of these significantly influences credit amount. In this regard the main objective of the paper is to determine the correlates of credit amount among women entrepreneurs. The main variable of interest is well-being of clients which is to test whether it is significant in determining loan amount given to clients or otherwise. The paper is

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\(^1\) Well-being is the aggregate measure of consumption flow, wealth stock, equality, and economic security. A single index for each client is computed from a weighted aggregate. This method was chosen because poverty data at the macro level does not reflect household characteristics.
organized as follows: the next section reviews relevant literature, section three discusses the study area and methodology for the study. Section four presents the results of the study, section five presents results and discussion of findings and section six concludes.

2. Literature Review and Analytical Framework

This section is devoted for theoretical review and framework as well as empirical review of related studies. The first section discusses some of the theories that underpin women entrepreneurship. A framework for the study with regards to access to credit by women entrepreneurs is discussed. In the next section, some empirical evidence about women entrepreneurship and access to credit are also highlighted.

Entrepreneurs have been viewed from three main perspectives namely economic, sociological and idiosyncratic. The economic perspective considers the role of the entrepreneur in the economic development of a nation, region or locality. The sociological perspective sees the entrepreneur as a member of a social system who is influenced by their entrepreneurial activities, the social environment and the personality traits that the sociological system engenders. The sociological perspective is taken to include the spectrum of society from the family unit outwards. Idiosyncratic perspective focuses on the entrepreneur as an individual with a unique combination of personal characteristics and beliefs. The study by Lounsbury and Glynn (2001) suggest that these personal characteristics determine, to a large extent, the ability of the entrepreneur to save towards business planting.

Financial capital is a significant component in self-employment and contributes in important ways to entrepreneurial preparedness. In most cases, entrepreneurs with own source of capital are able to start their own businesses with ease and on timely basis. This means the importance self financing in entrepreneurial business cannot be underestimated. For example, Holtz-Eakin, Joulfaian and Rosen (1994) analyzed the behaviour of a group of sole proprietors that received significant inheritances and found that they are more likely to start and survive in an entrepreneurial endeavor than those proprietors without substantial personal finances. In another study, Blanchflower and Oswald (1998) used micro data sets of the self-employed to answer the question of what makes an entrepreneur. They showed that personal financing is one of the most important factors leading to self-employment, noting that the probability of self employment depends positively on an individual’s inheritance or financial gifts received. In most developing countries including Ghana, personal financing is very inadequate if not rare.

The new development paradigm of bottom-up approach ensures that micro-credit is made available to the low income households. It is on record that micro-credit programmes contribute positively to the development of the low income households at the micro level in several ways. Micro-credit programmes create employment opportunity, increase productivity, provide economic security, improve nutritional and health status and improve housing conditions for women households in particular (Hulme & Mosley 1998). In the sociological context, access to micro-credit influences social empowerment, creates awareness and improves educational status, enhances self esteem and contributes to organizational and management skills among women entrepreneurs (Pitt & Khandker, 1996). Access to micro-credit has the potency of improving the physical well-being of clients. In this regard, micro-credit enables households to create physical wealth such as buildings, basic means of transport, increase in nutritional status, basic electrical appliances, and simple business assets. Access to micro-credit has also been evidenced as a generator of income. Mosley (2001) in their study of Bolivia micro-loan clients found that clients were able to double their income in two years after they have received the credit. They were also able to significantly contribute to their children’s education by way of increased enrollment.

By participating in microfinance programme, clients are expected to move up the poverty line and this is expected to be sustainable. For example, in Bangladesh, about 48% of poor households rose above the poverty line with access to microfinance. Additionally, 5% of clients that participated in the Grameen Bank’s microfinance programme graduated out of poverty each year and these gains were sustainable (Khandker, 2003).

Entrepreneurship is a complex and multifaceted phenomenon. Changes in the economy and the restructuring of labour markets in terms of employee qualifications, nature of work contents and work contracts have raised the profile and
The importance of entrepreneurship within the global economy. There is rapid growth of women in professional and managerial jobs but despite this rapid growth, the gender gap in entrepreneurship remains significant. Women entrepreneurship is a cross-cultural phenomenon with culture specific aspects. As a result of this understanding it has two different, though related, components (United Nations, 2003).

There are factors that influence the behaviour of entrepreneurs different countries and across gender. These variables are universal determinants of entrepreneurial behaviour, although they may have gender specific effects. In other words, they influence both sexes but not necessarily in the same way or with the same intensity. For example, the stability of the ratio of female-to-male entrepreneurship, and the stability of prevalence rates for different age groups, both indicate that women and men are influenced by many of the same variables when making entrepreneurial decisions. However, the fact that male entrepreneurship rates are systematically and significantly higher than female entrepreneurship rates indicates an asymmetry of universal factors across the sexes that may cause men and women to behave differently with respect to entrepreneurship. Again, there are some aspects of entrepreneurial behaviour that are peculiar to some countries. These differences in entrepreneurship incidence rates across countries suggest that entrepreneurial attitudes are influenced by country-specific factors. However, some clear differences in country and gender specific variables exist for groups of countries with similar income levels according to the United Nations (United Nations, 2003). Across Africa these differences exist. These differences affect access to credit by women entrepreneurs in different ways. For example, more entrepreneurial women are more likely to access credit with ease as compared with less entrepreneurial women. Men and women also differ in terms of access to credit. In general it has been documented that access to credit by women in business is limited as compared to men. Again women are usually denied credit from the formal financial commercial banks thus they resort to credit from microfinance institutions.

Theoretically, demand for credit serves to bridge the gap between owners of financial assets and the required financial needs of the enterprise. According to Aryeetey, Baah-Nuako, Duggbeby, Hettige and Steel (1994), demand for credit can be of three categories namely potential, revealed and perceived. When an entrepreneur’s desire for credit is not actualized due to market imperfection it is described as potential demand for credit. Revealed demand for credit is when an entrepreneur puts in an application for a required sum at the prevailing borrowing rate. In each of these cases, the demander’s decision to take credit is constrained. Perceived demand for credit is where the entrepreneur who is in need of credit is constrained by access, which is the main focus of this paper.

The decision to take micro-credit from an institution can be considered in the form of an indirect utility function where the consumer chooses to buy at most one product from set of differentiated products in a commodity market. In such a case, consumer i’s utility from the purchase of product j is:

$$U_i = U(X_j, V_i, \beta)$$  \hspace{1cm} (1)$$

Where $X_j$ is a vector of product characteristics including price of the commodity, $V_i$ is a vector of consumer tastes and $\beta$ is a vector of parameters to be estimated. The indirect utility model expresses utility as a function of characteristics of the product itself and other factors that will give satisfaction to the consumer. In simple terms, the direct demand function expresses quantity demanded of a commodity as a function of the commodity in question, income of the consumer, and prices of other related. Functionally, according to demand theory, the relationship between quantity demanded of a commodity and price is as follow:

$$Q^d = f(P, X)$$  \hspace{1cm} (2)$$

Where $Q^d$ is quantity demanded of the commodity, $P$ is price and $X$ is household characteristics. The demand side of the financial market looks at factors that influence clients demand for financial services. Following the demand theory in the product market, it is possible to model demand for credit by clients as:

$$Cr = f(Y, X)$$  \hspace{1cm} (3)$$

Where $Cr$ is credit amount, $Y$ institutional characteristics, and $X$ household characteristics. In this study the unit of analysis is at the household level so the institutional factors are not considered.
Several studies have investigated the factors that influence access to credit by women clients of microfinance. The importance of micro-credit has also been widely researched into. Credit in general creates opportunities for self-employment. Given access to credit under appropriate institutional structures and arrangements, its impact trickles down to the entire household members. Micro-credit has been acknowledged and seen as a tool for reducing poverty. An evaluation of Integrated Development Foundation (IDF) found that in Bangladesh 35% of clients crossed the poverty line. In India, a practitioner-led impact assessment of Activist for Social Alternatives (ASA) revealed that a combination of microfinance services such as credit, savings, and insurance products have empowered clients in terms of increased income, economic security and risk management mechanisms and clients well-being (Latifee, 2003). The study did not however, discuss the reverse impact of well-being on access to credit.

The literature on women in businesses suggests that whenever women are engaged in economic activities, they are empowered. Sen (1987,) sees two ways in which women’s income-earning activities can affect the situation of themselves and their families. The first possible outcome is the enhancement of the overall command of the household, and the second is an increase in the woman’s share of the household command. Earnings can give woman a clearer perception of her individuality and well-being and a higher perceived contribution to the economic position of the family. In the same vein, women’s empowerment has a critical effect on their economic gains (Grown & Sebstad, 1989). Women’s economic activities and earnings outside the household are relevant to the nature of freedom, power and status women enjoy vis-à-vis adult men, since they influence the perceptions of who is contributing to the family. Independent life and income outside the home have also social effects, which are important in terms of earnings and support (Sen, 1987; Osmani, 1998). It is therefore, obvious that access to microfinance not only creates wealth and improve women’s economic status but also makes them empowered. This study did not also look at the likely impacts of the produced well-being on future access to credit.

The flip side of literature is that access to microcredit has not always led to positive outcomes. Several lines of critique can be distinguished. Gulli (1998) argues that credit is not always the main binding factor for growth of microenterprises since poor people demand a wider range of financial, business development and social services in order to meet their individual business and household purposes. Moreover, it has been argued by several studies that microfinance does not reach the very poor (Mosley & Hulme, 1998; Coleman, 2006; Kondo et al. 2008; Niño-Zarazúa, 2007). These studies mainly argue that microfinance serves the “active” or “dynamic” poor but does not reach the poorest households. Results of this group of studies suggest both positive and negative impacts of borrowing, mainly depending on a household’s relative income position and its “entrepreneurial spirit”. The argument is that if microfinance does not get to the poorest households then client selection might be influenced by household characteristic of which well-being is an important parameter. It is probably in this regard that in general, the success rate for lifting poor people out of poverty is much higher for those living just under the poverty line than for the very poorest in most communities or those far from the poverty line. The poorest or ‘core poor’ (see Rahman & Hossain, 1992) receive few direct benefits from income-generating credit initiatives. This is a major characteristic of those institutions that strive to achieve institutional sustainability. Such institutions concentrate on the ‘upper poor’ and ‘middle poor’ among the poor while leaving the ‘core poor’ in society.

3. Data and Methods

This section discusses the methodology adopted for the study. The first section describes the study area (Mfantsiman Municipality). Data and data collection methods are discussed in the next section followed by empirical estimation model.

3.1 The study area

The Central Region has 13 districts, 3 municipalities and one metropolis. Mfantsiman Municipality is one of the 3 municipalities in the region. It is bordered on the west by Abura-Asebu Kwamankese district; on the north-west by the Assin South district, on the east by the Gomoa district and on the south by the Gulf of Guinea. The district covers about 612 sq km and the proportion of land area to the region is in the ratio 1:16. The district which has Saltpond as the capital has population of 152,855 constituting 9.6% of the total population in the region (GSS, 2002).
The sex distribution of the district shows that 70,212 are males whereas 80,264 are females with sex ratio of 85:100. The rural-urban proportion is almost 50-50 in the district. For example, the 2000 population and housing census show that 50.2% of the population of 152,855 dwell in the rural areas whereas 49.8% are urban dwellers. There is therefore no significant difference between rural-urban settlements in Mfantsiman district. The urban settlement has 54.0% females and 46.0% males whereas the rural settlement has 54.1% females and 45.9% males. The broad age structure shows that 0-14 years constitutes 43.5%, 15-64% has 49.5% and 65 and above takes 7%. From this, it is crystal clear that the dependency ratio for the district is 102.1% which is fourth in the Central Region of Ghana. Males tend to assume household headship at younger ages than females. At least 10% of male household heads in the district are between 25-49 years. The concentration of male household heads is in the age range 25-49 years, while that for females is 40-54. The majority of women population in the district engage in informal economic activities such as petty trading, fish mongering, farming, artisanal work, small scale agro-processing, hairdressing, and dressmaking. Even though the district lies along the sea, fishing activities is on a smaller scale because of its seasonal nature. Most women in the district engage in trading activities of which petty trading is very common.

Formal financial institutions that operate in the district are Ghana Commercial Bank (GCB), Mfantsiman Community Bank (MCB), First National Bank (FNB), Opportunity International (OI), and Sinapi Aba Trust\(^2\) (SAT). Semi-formal financial institutions in the district include Co-operative Credit Union (CCU) and Co-operative Susu\(^3\) and Loans Company. A number of informal financial service providers including individual Susu operators and money lenders operate in the district. Since their activities are mainly informal there no accurate data on them.

### 3.2 Data and data collection

Data for the study was collected using structured questionnaires. At the household level 320 women entrepreneurs were interviewed to solicit information about their household and businesses characteristics that influence their demand for micro-credit. Ten main indicators were used to calculate well-being scores. Data for calculating well-being scores include type of material for accommodation floor, source of drinking water, availability of electrical appliance, presence or absence of adult illiterate in the household, number of households with savings account, networks that household members belong to, type of fuel used by household, physically challenged persons among the household, skipping of meal as a means of coping strategy and access to or ownership of land. Scores were assigned to the indicators and aggregated. The aggregated scores were divided by the number of indices to generate the well-being scores for respondents.

In addition, data on other household demographic characteristics such as sex, educational level, marital status and age of household members were obtained. Selected respondents were female non-clients, and female clients who had received one cycle loans or repeated loans within the last twelve months of the survey. In all, the survey sampled 320 clients made up of 100 multiple clients (clients who have collected credit from at least two MFIs), 110 single clients and 110 non-clients. In selecting the clients, the institutions were not involved since their involvement would have produced some selection bias. Clients were drawn from traditional commercial banks, rural and community banks, savings and loans companies, credit unions, and financial non-governmental organizations. Non-clients were those who had not taken loans from any of the financial institutions within the past twelve months of the survey. It is also common to find non-clients saving with some financial institutions but have not taken loan. Such clients only take their accumulated savings at the end of a specified period of their choice.

Data for the study was collected in May-June 2010 by trained field assistants from the Department of Economics and Institute for Development Studies, University of Cape Coast. Fifty questionnaires were pre-tested and the results analyzed. Based on the pre-test, the questionnaires were re-structured to validate the data. Data was tabulated before final inputs were made into the SPSS software (version 16) and further transfer to STATA version 11. The analysis was made using the latter software.

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\(^2\) SAT is a financial non-governmental organization.

\(^3\) Susu is a fixed sum of money collected by a trusted operator on daily basis for safe keeping on behalf of the depositor for which withdrawal can be made at any time but subject to agreed fee. In the usual practice the operator is entitled to the first day’s deposit.
3.3 Specification of Econometric Model

The model specification is consistent with standard demand for loan. Typical MFIs, in order to minimize the moral hazard, screen clients well by taking into account their socio-economic and demographic characteristics before loans are approved. This is also consistent with the selection process of traditional commercial banks where clients with high scores of rating are selected for credit approval. The implication is that it is not just poor clients that benefit from microfinance programmes but rather those who are capable of repaying their loans. The study uses a three-stage estimation approach. At the first stage, well-being scores are generated for clients and non-clients. We use the well-being scores as proxies for economic status of respondents. This is our contribution to the literature in that most studies have expressed credit amount as a function of poverty levels of clients (to test the extent to which microfinance can reach the poorest) and interest rate. Contrary to this, some studies have concluded that microfinance did not really benefit the poor but rather made them worse-off while improving the status of the ‘rich’ poor. Suppose that we follow the usual demand theory (as expressed in equation 3), then we can formulate a functional relationship between credit amount, well-being and client characteristics as follows:

\[ Cr = f(\ X, \ W_i) \]

Where \( X \) is the covariates of household characteristics and \( W_i \) the household well-being scores. Empirically, we can transform equation (4) to estimate the linear equation using ordinary least square (OLS) to generate the parameters of interest:

\[ Cr = \beta_i X_i + \beta_i W_i + \mu \]

Where \( \beta \) and \( \beta_i \) are the parameters of interest and \( \mu \) denotes the error term emerging from participation and outcome equations. Controlling for non-clients we try to estimate the different factors that are likely to influence access to credit by single clients and multiple clients in the sample. The empirical model for estimation is as follows:

\[ Cr_{S} = Wbeing + Levedu + Agebus + Mstat + \mu \]

\[ Cr_{M} = Wbeing + Levedu + Agebus + Mstat + \mu \]

\[ Cr_{T} = Wbeing + Levedu + Agebus + Mstat + \mu \]

Where:

\( Cr_{S}, Cr_{M}, Cr_{T} \) represent single clients, multiple clients and all clients respectively;

\( Wbeing = \) Well being scores;

\( Levedu = \) Level of education (No education=0 to University education=7);

\( Agebus = \) Age of business;

\( Mstat = \) Marital status of clients and

\( \mu = \) error term

Single clients are those who have taken loans from just one institution whereas multiple clients are those who have taken loans from two or more different institutions or multiple loans from the same institution. In this study the problem of selection bias is acknowledged. This arises when individuals self-select into treatment, that is, those deciding to take a micro-credit might differ from the non-clients with regard to individual, unobservable characteristics, which might also influence the outcome under consideration. The problem of selection biased was addressed by careful selection of respondents mainly clients of MFIs.

4. Results and Discussion

This section presents and discusses the results of the study. The presentation and discussion begins with the characteristics of women entrepreneurs and follows with the correlates of credit amount sourced by clients.
Table 1: Characteristics of women entrepreneurs

| Characteristic     | Clients | Non-clients | Total  |
|-------------------|---------|-------------|--------|
| **Economic activity** |         |             |        |
| Trading           | n=200   | n=120       |        |
|                   | 171(53.5) | 80(25)      | 251(78.5) |
| Value addition    | 12(3.8)  | 16(4.9)     | 28(8.7) |
| Services          | 17(5.3)  | 16(5.0)     | 33(10.3) |
| Farming           | 0        | 8(2.5)      | 8(2.5)  |
| **Level of education** |         |             |        |
|                   | n=200   | n=120       |        |
| Higher education  | 31(9.7)  | 22(6.9)     | 53(16.6) |
| Secondary         | 74 (23.1)| 25 (7.8)    | 99(30.9) |
| Primary           | 19 (5.9) | 9 (2.8)     | 28(8.8) |
| No education      | 76 (23.8)| 64 (20.0)   | 140(43.2)|
| **Marital status** |         |             |        |
|                   | n=200   | n=120       |        |
| Married           | 150(46.9)| 73 (22.8)   | 223(69.7)|
| Widow             | 13 (4.1) | 10 (3.1)    | 23(7.2) |
| Divorced          | 24 (7.5) | 10 (3.1)    | 34(10.6)|
| Single            | 8 (2.5)  | 18 (5.6)    | 26(8.1)|
| Separated         | 5 (1.6)  | 9 (2.8)     | 14(4.4)|
| **Number of years in business** |         |             |        |
|                   |         |             |        |
| 0-5               | 67(20.9) | 55(17.2)    | 122(38.1)|
| 6-10              | 73 (22.8)| 29 (9.1)    | 102(31.9)|
| 11-15             | 24 (7.5) | 18 (5.6)    | 42 (13.1)|
| 16-20             | 20 (6.3) | 15 (4.7)    | 35 (10.9)|
| 20 or more        | 16 (5.0) | 3 (0.9)     | 19 (5.9)|

Source: Field survey, 2010. Note: Figures in parentheses are percentages

Women entrepreneurs exhibit several characteristics that are important for determining their access to micro-credit in the informal sector. Most women engage in trading activities (78.5%) in the Mfantsiman Municipality (table 1) followed by value addition (8.7%) and other services (10.3%) including hairdressing, and seam stressing. Women engaged in valued are those who buy raw maize and use it to manufacture kenkey. They also include women who engage in gari processing and fish smoking. The least activity women engage in is farming (2.5%). There are more clients in trading than non-clients. Women who are into trading are involved in the sale of provisions and foodstuff in kiosks and table-tops. Some also hawk along the road side with their wares on their heads since the principal towns in the district are located along the road side. Even though clients more clients have higher levels of education as compared with non-clients, more clients are illiterates in comparison with non-clients. Personal finance has been identified to be very important for the survival of most entrepreneurs.

The study (table 2) found that most women entrepreneurs started their businesses with personal funds irrespective of the size of the amount. The result confirms that of Holtz-Eakin, Joulfiaan, and Rosen (1994) on the premise that entrepreneurs who initiate businesses with their own funds survive more than those who do not. It is true that self financing is very important in promoting family owned businesses as echoed by Dunn and Holtz-Eakin (2000) who argue that family financial capital can ease the transition to self-employment. The premier function of entrepreneur as the provider of initial capital therefore remains unchallenged. Financial institutions usually give funds to entrepreneurs
to start businesses but they look for people with the ‘entrepreneurial spirit’ to support them. The ability to provide the initial capital among others constitutes the entrepreneurial spirit. This underscores the usual philosophy that microfinance targets ‘economically active poor’. It is economically justified for MFIs to provide top-capital rather than providing initial capital or ‘seed capital’. This satisfies the condition of the preparedness to take risk by entrepreneurs. In this regard microfinance is seen as a tool for supporting existing businesses of those who have taken the primary business risk (self financing). After self financing has established the business, clients are able to secure top-up capital from informal financial institutions (IFIs) for expansion. It is interesting to note that majority of women entrepreneurs (36.2%) are able to secure funds from IFIs whereas non-clients continue to provide self-financing.

Table 2: Sources of business capital

| Business Capital source      | Membership status |          | Total          |
|-----------------------------|-------------------|----------|----------------|
|                             | Clients n=200     | Non-clients n=120 |               |
| **Start-up capital**        |                   |          |                |
| Self (own savings)          | 172(53.6)         | 103(32.1) | 275(85.7)      |
| Family and friends          | 12(3.8)           | 11(3.4)  | 23(7.2)        |
| Informal financial institutions | 10(3.1)       | 0(0)     | 10(3.1)        |
| Formal financial institutions| 6(1.85)           | 6(1.85)  | 12(3.7)        |
| **Top-up capital**          |                   |          |                |
| Self (own savings)          | 6(1.9)            | 113(35.3)| 119(37.2)      |
| Family and friends          | 1(0.3)            | 6(1.9)   | 7(2.2)         |
| Informal financial institutions | 116(36.2)     | 0(0)     | 116(36.2)      |
| Formal financial institutions| 62(19.4)          | 16(5.0)  | 78(24.4)       |

Note: Figures in parentheses are percentages
Source: Field survey, 2010

In all cases clients have been in business for longer period than non-clients. For example as 43.7% of clients’ businesses are aged 0-10 years that of non-clients in the same age category is only 17.3%. Again 19.6% of client businesses are aged 11 or more years whereas that of non-clients is 11.2%.

4.1 Credit amount sourced by clients

The amount of credit sourced by clients varies from client to client (table 3). The minimum amount obtained was GHS 85.00 and the highest GHS 3400. More than half of the clients (70.47%) obtained loans up to GHS 500.00 whereas 27.84% of clients have obtained loans ranging between GHS 500.00 and GHS 2000.00 respectively. No client had received credit between GHS 2000.00 and GHS 3000.00. Only two clients received loans more than GHS 3000.00. In general it is believed that microfinance clients have access to small loan sizes so it is not surprising that no client received loan amount of GHS 2000 and GHS 3000.
Table 3: Credit amount sourced by clients only (including multiple clients)

| Amount (GHS) | Number of clients | %      | Cumulative |
|--------------|-------------------|--------|------------|
| Up to 500    | 123               | 70.47  | 70.47      |
| 501-1000     | 35                | 19.32  | 89.79      |
| 1001-2000    | 15                | 8.52   | 98.31      |
| 2001-3000    | 0                 | 0.00   | 98.31      |
| More than 3000 | 2           | 1.14   | 99.45      |
| **Total**    | **176**           | **100.0** | **99.45** |

Minimum loan size GHS 35  Average loan size GHS 445  Maximum loan size GHS 3400

Source: Field survey, 2010  (n=100)

Table 4 reports the distribution of credit amount among multiple clients. We observe a cut down in credit amount offered. More than half of the clients take up to GHS 500.00 from second MFIs. About 42% of the multiple clients take loans of GHS 501-GHS 2000.00. It is interesting to note that clients take smaller loan amounts from second institutions. One reason might be that they are already having financial commitments with the first MFI.

Table 4: Credit amount sourced by Clients (multiple clients only)

| Amount (GHS) | Number of clients | %    | Cumulative |
|--------------|-------------------|------|------------|
| Up to 500    | 48                | 57.14| 57.14      |
| 501-1000     | 27                | 32.14| 89.28      |
| 1001-2000    | 8                 | 9.52 | 98.80      |
| 2001-3000    | 1                 | 1.20 | 100.00     |
| **Total**    | **84**            | **100.0** | **100.00** |

Minimum loan size GHS 6  Average loan size GHS 512  Maximum loan size GHS 2450

Source: Field survey, 2010

Among the reasons why clients take second or third loan is that they might want to use it as a top-up fund, pay for other household expenses, or sometimes to pay the first loan due to default (robbing Peter to pay Paul). It must be emphasized that this practice poses greater risk to clients as confirmed by some recent papers (Venkata & Yamini, 2010).

4.2 Women entrepreneurs’ well-being and access to credit

The well-being groupings indicate that single clients are over-represented in the highest category whereas non-clients are over-represented in the lowest category. This implies that single clients are better off than multiple clients in the sample.

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4 16 clients reported that they only took their accumulated savings from other institutions. They are classified as multiple clients because it is likely that they may take loans when the need arises.
Table 5: Well-being groupings of women entrepreneurs

| Well-being groupings | % of Single clients | % of Non-clients | % of Multiple clients |
|----------------------|---------------------|------------------|----------------------|
| Lowest               | 31.9                | 27.1             | 15.3                 |
| Middle               | 34.3                | 34.3             | 31.5                 |
| Highest              | 37.1                | 52.8             | 35.7                 |

Source: Field survey, 2010

Well-being scores, sex of household head and level of education (primary) are significant in determining access to credit amount whereas marital status of women entrepreneurs does not. The results in Table 5 shows that compared to non-clients, single clients are over-represented in the highest wellbeing groupings while they are under-represented in the lowest well-being groupings. Thus, 37.1% of the single clients were within the highest category compared to 31.9% in the lowest category. Similar observation is made for the multiple clients where 35.7% of them were within the highest category compared to only 15.3% in the lowest category. By inference, these outcomes suggest that microfinance institutions target the better-offs among the poor in their pursuit of financial sustainability.

Table 6 shows the correlates of credit amount. With $R^2=52.3\%$, it means that approximately 52.3 percent of the variation in access to credit amount can be explained by the explanatory variables. The remaining 47.7 percent can be explained by unknown, lurking variables or inherent variability captured by the error term. For cross-sectional data $R^2$ of 52.3% is impressive. The main variable of interest is well-being of clients which enters the model with a positive sign. This means that credit amount varies positively with clients’ well being at 10% and 5% levels of significance for single clients and multiple clients respectively.

Table 6: OLS regression result (dependent variable: credit amount)

| Variables         | Single client |       | Multiple Client |       | Total Sample |       |
|-------------------|---------------|-------|-----------------|-------|--------------|-------|
|                   | Coefficient   | p>0   | Coefficient     | p>0   | Coefficient  | p>0   |
| Well-being score  | 0.1234        | 0.055 | 0.3264          | 0.000 | 0.2765       | 0.001 |
|                   | (0.0633)      |       | (0.087)         |       | (0.0848)     |       |
| Level of education| 0.0048        | 0.338 | 0.1201          | 0.094 | 0.2872       | 0.051 |
|                   | (0.005)       |       | (0.070)         |       | (0.1457)     |       |
| Age of business   | 0.4385        | 0.018 | 0.4780          | 0.005 | 0.3891       | 0.002 |
|                   | (0.1812)      |       | (0.165)         |       | (0.1247)     |       |
| Marital status    | 0.0037        | 0.993 | -0.0236         | 0.895 | 0.0147       | 0.772 |
|                   | (0.3700)      |       | (0.181)         |       | (0.0408)     |       |

*, **, *** Significant at 10%, 5% and 1% respectively.

Computed from field survey.
From table 6, the results of regression equations for single clients, multiple clients and the entire sample are as follows:

For the entire sample, well-scores significantly influences credit amount. It can be said that irrespective of the client status, well-being is an important variable that determines how much credit can be accessed by microfinance clients.

\[ CrS = 0.1234 \times \text{Wbeing} + 0.0048 \times \text{Levedu} + 0.4385 \times \text{Agebus} + 0.0037 \times \text{Mstat} \]

\[ CrM = 0.3264 \times \text{Wbeing} + 0.1201 \times \text{Levedu} + 0.4780 \times \text{Agebus} - 0.0236 \times \text{Mstat} \]

\[ CrT = 0.2765 \times \text{Wbeing} + 0.2872 \times \text{Levedu} + 0.3891 \times \text{Agebus} + 0.0147 \times \text{Mstat} \]

This is so probably because these clients are likely to pay back whatever they borrow. It is important to remark however that ability to repay a loan contracted depends upon a host of factors including for example profitability of the venture, cost of capital, terms of repayment among others. The traditional view that microfinance should target the poorest of the poor is can be challenged on the basis of this finding. It is clear that that the core poor of society with low economic well-being might not benefit from micro credit and even if they do, loan sizes available to them will always be small. This is probably one of the reasons why it is believed that microfinance will benefit the ‘high income’ poor more than the ‘low income’ poor. This by implication supports the institutionists’ view of ensuring financial sustainability at the initial stage of MFIs operation.

It can be inferred from the study that women do have access to credit from MFIs. This is because microfinance targets women. Microfinance targets women because they have been denied of access to credit from traditional commercial banks. For example a study conducted by Fatima (2009) in rural Pakistan showed that women lack easier access to formal credit and the socio-economic, cultural background of the family significantly impact probability of borrowing. More specifically, her result indicated that females’ own age, marital status and employment bring self-confidence and reliability that encourage female borrowing. In this regard microfinance has come to salvage women from the credit problem but here too it only those with entrepreneurial ability that can access credit.

Age of business or how long clients have been in business significantly influences credit amount. This variable is significant across all categories of clients as well as the entire sample. A year increase in age leads to 0.4385, 0.4780 and 0.3891 increase in credit amount for single clients, multiple clients and all clients respectively. Aged businesses are likely to received bigger loan amounts from MFIs than younger businesses all things being equal. This confirms Hamdani, (2010) that age of business is one of the ‘keys to credit success’ that financial institutions consider in approving credit because. The assumption is that older businesses have passed the test of time; owners are experienced, and are also operating in the long run where supernormal profits can be reaped. It is therefore not surprising to find its significant impact.

Among single clients educational level is not a driver of access to credit amount. In the case of multiple clients and all clients, education is significant at 10%. Education in this context refers to formal education. This means illiterate clients can access microfinance loans from just one institution. For multiple lending education becomes significant probably because the second loan is taken from a formal commercial bank. Formal commercial banks sometimes take into account the educational background of the client which typical MFIs do not. MFIs give credit with education; a concept pioneered by Freedom from Hunger (FFH) and for that matter client only needs to prove that they have the ability to use the credit. Probably the most important education that clients need is how to manage the credit which is not dependent upon their level of formal education in most cases. It is also not surprising that the level of education influences multiple loans because some studies have found that the level of education increases clients’ chances of obtaining credit from formal financial institutions (see for example Anyiro and Oriaku, 2011) in Nigeria. The combined effect indicates that in general education influences access to credit amount.

Marital status does not also significantly influence access to credit amount. Whether one is married or otherwise does not matter much but the most important thing is her well-being characteristics. The popular mode of credit delivery in
the Municipality is group lending. With this approach husbands necessarily need not to guarantee for their wives because the group lending offers joint liability (Ghatak, Timothy & Guinnane, 1999). The group network offers a better social capital than husband-wife network. Unfortunately, the paper did not consider the effect of group lending on access to credit amount.

5. Limitations of the study

The study is limited to particular municipality in Ghana and for that reason the findings cannot be generalized. Further research on the subject matter should expand the scope in terms of the study area. In this study the focus is on women entrepreneurs only but a better picture could have been painted by comparing men and women. It is proposed future studies could compare women entrepreneurs with men entrepreneurs.

6. Conclusion

This paper examined access to credit, well-being and household characteristics of women entrepreneurs in the Mfantsiman Municipality of the Central Region of Ghana. Data for the study was collected from 320 women entrepreneurs using structured questionnaires. As indicated by earlier studies (see for example Fatima, 2009) and confirmed by the current study, the well-being of female entrepreneurs significantly influence access to micro-credit. Age of business significantly determines credit amount to women entrepreneurs. Women who have been in business for a long time have the potential in accessing credit from MFIs as compared to those who have not. To access credit from just MFI, education does not matter but it matters for multiple loans. Once multiple borrowing cannot be stopped, there is the need to educate clients on the use of credit. Marital status of women entrepreneurs does not also influence credit amount (loan size) obtained from MFIs.

The premise that microfinance empowers economically active clients and view that better-off entrepreneurs are likely to access larger loan sizes cannot be challenged. This is so because well-being scores significantly influences loan amount. This implies that clients with high well-being scores are likely to have access to larger loan amounts. Demand driven credit policies are more beneficial than supply driven which does not consider clients’ characteristics such as their well-being. A bigger challenge however is that the purpose of microfinance will be defeated if it does not reach the poorest of society with low well-being scores. In this regard one cannot be sure of whether microfinance is serving the poorest of the poor or not. This notwithstanding, MFIs cannot be blamed for serving clients with high well-being scores because they also need to protect their portfolio. The approach of delivery needs to be re-visited thoroughly. Indeed, credit allocations on the basis of initial wealth endowments preserve the vicious circle of poverty, as those with low levels of human and physical capital are the ones who cannot gain access to the additional command over resources offered by MFIs.

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