

Does Microcredit Create Employment For the Poor? The Case of the Microcredit Scheme of Upper Manya Krobo Rural Bank in Ghana

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Abstract

The microfinance industry, over the past four decades has grown to become a major development tool of the world, both in terms of beneficiaries as well as the financial inputs that it received. The microfinance concept assumes that, *ceteris paribus*, credit to the poor, would lead to increased jobs, household well-being and poverty reduction. However, to date, no study has established a link between microcredit and wage employment, which is critical for poverty reduction. This paper argues that microcredit is critical for survivalist self-employment but it does not necessarily lead to the creation of wage employment for the jobless. This evidence is from an assessment of how microcredit has contributed to business performance of the clients of the Upper Manya Krobo Rural Bank's microcredit programme in the Eastern Region of Ghana. The paper is based on a doctoral research output that used mixed method approach to collect data from a sample of 420 exits, repeated and permanent microcredit clients. The paper is of the view that microcredit may not lead to paid employment but can help clients start, improve and expand micro-enterprises. Enterprise expansion in this context refers to adding other products/services similar to the existing activity rather than the clients establishing new employable wage enterprises for the jobless.

Keywords: Microfinance; Microcredit; Upper Manya Krobo; Poverty; Employment

Background

Over 22% of the population of developing countries lives below \$1.25 a day. Out of nearly 3 billion poor business-minded people across the world, less than 17% have access to institutional credits [1,2]. This is because, on the one hand, poor people are not well endowed and cannot provide the necessary collateral security often demanded by the banks. On the other hand, the banks find it difficult to recover the high cost involved in dealing with small firms. Besides, small firms have high failure rates, which make it difficult for financial institutions to assess accurately their viability [3]. As a result, small firms often suffer financial deprivation from the traditional bank. As they strive to satisfy their basic investment needs, small business operators sometimes rely on informal sector money lenders whose loans attract exorbitant interest rates thereby putting borrowers in perpetual debt traps [4].

Given the difficulty and failure of poor people to access institutional credit, economists and policy makers in the 1970s started the microfinance revolution. Microfinance is an economic development approach, which involves providing financial services through institutions to low-income clients who the traditional banking institutions fail to provide financial services [5]. It is a critical financial tool for poor entrepreneurs, and its increasing role in the poverty reduction discourse is widely recognized.

Microfinance which includes microcredit, micro-insurance, micro-savings and money transfers, among others, has caught the attention of policy makers, academicians and researchers due to the global recognition that poor people's access to financial services is fundamental for the sustainability of poverty reduction interventions and a critical factor for the achievement of the Millennium Development Goals [6]. Thus, over the past four decades the microfinance industry had grown to become a major development programme of the world, both in terms of beneficiaries as well as the financial inputs that it received [6-9]. World-wide, the industry had attained considerable growth with the promise of helping alleviate poverty, especially among women in developing countries.

The microfinance concept assumes that, *ceteris paribus*, credit to the poor would leads to increased jobs, household well-being and poverty reduction [10-13]. Yet, after more than four decades of existence, opinions on the impact of microcredit on poverty reduction have been divided between those who see it as a "magic bullet" for self-employment and women's empowerment and others who are dismissive of its abilities as an antidote for development through the creation of wage employment for the jobless. Certainly, access to institutional credit eases liquidity constraints which can and does make vital contributions to economic and social well-being of poor households. Microfinance is a noble idea and a genuine innovation that has provided some positive impact to its clients, particularly to women's empowerment. It also helps to reduce vulnerability of the poor during cyclical challenges or unexpected crises [14-16]. The critical issue however, is whether microcredit clients are able to create paid jobs for the jobless.

Studies that seek to establish the link between microcredit and wage employment which is critical for poverty reduction are not only inconclusive but conflicting. For instance, Dowla and Barua [17] Banerjee, Duflo, Glennerster and Kinnan [18], Bateman and Chang [19], and Roodman [20] have argued that microcredit can only help poor people to become self-employed but is not a tool for poverty reduction. In the book "Microcredit: Myth Manufactured" Neff [21] found that after eight years of borrowing, 55% clients of the Grameen

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Received September 03, 2015; Accepted September 24, 2015; Published October 01, 2015

Citation: Emmanuel KT, Frempong G, Obirih-Opareh N, Rose O (2015) Does Microcredit Create Employment For the Poor? The Case of the Microcredit Scheme of Upper Manya Krobo Rural Bank in Ghana. Bus Eco J 7: 190. doi:10.4172/2151-6219.1000190

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Bank were still not able to meet basic household needs. To Karlan and Zinman [11], microcredit can even shrink the business of some clients and make them bankrupt.

Creating opportunities for wage employment is fundamental to poverty reduction. For instance, China, Vietnam, and South Korea have significantly reduced poverty with little microfinance activity [22]. In China, in particular, a large and growing percentage of the population is employed in jobs and this had reduced the percentage of people living in poverty. On the other hand, despite the influx of microfinance institutions in Bangladesh, Bolivia, and Indonesia poverty in these countries is still high [22]. The fact is that, most microcredit clients are not entrepreneurs because the loans they receive is not enough to transform the micro-enterprises that they operate into employable small or medium enterprises. The microcredit clients would even prefer a job at reasonable wages if it were available.

Sustainable employment at reasonable wages is the best way to take people out of poverty. According to nothing is more fundamental to poverty reduction than opportunities for paid jobs. To the UNDP [23], employment is the key link between economic growth and poverty reduction. If informal self-employment which microcredit helps to establish is equated to entrepreneurship then several such entrepreneurs in a country would not lead to economic growth and reduction of poverty [22].

There is growing evidence that despite microcredit success in women's empowerment, microcredit has had limited or no impact on wage employment and poverty [11,18,24]. According to the authors, employment generation and poverty reduction entails creating opportunities for the jobless to earn sustainable income or wages. Although some MFIs give start-up loans to put some people into business, such loans are most often directed towards the skilled but credit constrained. Therefore, many questions have been raised about the suitability of microcredit as a strategy for creating paid jobs. For instance, under the group and joint liability structure, the important criteria for inclusion is a person already engaged in an existing income generating venture [25-29].

Microcredit clients usually have low level of education and so lack managerial skills. According to Ssewamala et al. [30] and Roodman [20], Banerjee [16], the businesses that microfinance institutions support are informal, have sole proprietorship and are tended towards meeting basic needs like food and medication. Profits accruing from these informal activities are not enough to expand the enterprise to the extent of employing the also reported that informal sector enterprises in Ghana lack capital and managerial capacity to grow into small or medium firms. The question that comes to mind is does microcredit influence wage employment in order to reduce poverty? Utilizing the rural development through entrepreneurship theoretical framework, this paper contributes to the debate on whether microcredit influences poverty reduction through wage employment. In particular, the study assesses client's level of education, type of business, important determinants in joint liability group formation, loan quantum and loan use. The paper used cross-sectional data set of microcredit clients of the Upper Manya Krobo Rural Bank in the Eastern Region of Ghana.

Theoretical Frame work

Entrepreneurship and rural development

The theory of rural development through entrepreneurship posits that high level of informal entrepreneurship transforms rural economies from poverty stricken to wealth creation [22,30].

According to Cervelló-Royo [31] microcredit is attractive to rural people for two main reasons. These are utilization of microcredit to exploit business opportunities (opportunity-driven financing) and for household survival (survival-driven financing). Survival-driven clients usually invest loan in businesses that are over-exploited. Such ventures yield marginal returns but provide fast returns on investments while opportunity driven clients invest in viable new enterprises [32]. Investment in either survival or opportunity driven enterprises to a large extent depends on the amount of capital, socioeconomic status and/or entrepreneurial capabilities. The critical push factors for opportunity-driven entrepreneurship are infrastructural facilities like roads and markets for goods and services. In theory, micro-sole-proprietorship decreases as the rural economies increases with wealthier enterprises providing employment opportunities [22]. Households employed by the informal sector due to lack of income alternatives may earn more income from wage employment offered by small or medium enterprise compared to easing liquidity constraints through microfinance. The jobless would then be employed in the wealthier enterprises. This leads to rural growth and poverty reduction [32]. The argument therefore, is for microfinance institutions to provide adequate funds for growth-oriented clients for investment in opportunity driven enterprises. Microcredit clients also needs to exhibit entrepreneurial and managerial skills. In addition, push factors including market niches and good road networks would propel employment generation, growth and poverty reduction. The paper argues that the analytical framework is applicable in explaining that microcredit can help improve micro-enterprises but is not an antidote for wage employment.

Poverty and poverty levels in Ghana

A static view of poverty defines it in terms of the capacity to meet basic needs. However, poverty is a multidimensional phenomenon and its causes vary by gender, age, culture, social and economic contexts. The World Bank [33] provides a broader overview of what constitutes poverty. According to them, poverty entails living in a state of material deprivation (physical weakness, malnutrition, sickness, disability); lack of strength (isolation, illiteracy, peripheral locations, marginalization and discrimination); vulnerability to contingencies which increase poverty (war, climatic changes, seasonal fluctuations); and powerlessness. The World Bank measures poverty in terms of expenditure on consumption. Therefore being in extreme poverty is to live on \$1.25 or less a day [33]. People living below this threshold are unable to purchase food to meet nutritional requirement and non-food items.

Over the last few decades, global poverty had reduced drastically, yet, nearly 1.2 billion people world-wide still remained entrenched in poverty [34]. In sub-Saharan Africa, over 30 % of the population is undernourished. Although the number of people living in extreme poverty has reduced in Ghana, Ghana's current poverty rate of 24.2% [35] is still high given that the country now has a lower middle income status.

The poor in Ghana are classified into two, namely those who live above an upper poverty line of GHC 1314.00, equivalent to US\$1.83 a day and those within a lower poverty line of GHC 792.05, equivalent to US\$1.03 a day [35]. People who live above the upper poverty line are considered non-poor while those whose consumption expenditure are equivalent or below the lower poverty threshold are considered absolutely poor or living in extreme poverty. Reports from the Ghana Living Standard Survey (GLSS), Round 6, indicate that 32% of Ghana's population is poor and 8.4% is extremely poor [35]. Ghana's poverty

rate has declined substantially over the past two decades from 51.7% in 1992-92 to 28.5% in 2005-06 and 7.7% in 2013 [35], and it is expected that the country would achieve the Millennium Development Goal One target of halving poverty by 2015 [36].

Poverty in Ghana varies across regions and socio-demographic groupings such that the overall decline in poverty incidence has not made an impact on rural poverty. For instance, in 2013, urban poverty stood at 10.6% compared to rural poverty of 37.9%. Rural Savannah contributes 55.0% of the poverty situation in the country, while rural coastal and rural forest areas represent 30.3% and 27.9% respectively [35].

The Greater Accra regions which include the capital city, has the lowest poverty rate of 3.5%. On the other hand, the three savannah regions, (Northern, Upper East and Upper West) accounts for 40% of the overall poverty in Ghana [35]. The GLSS 6, has reported that poverty is highest among food crop farmers while people engaged in self-employed non-agricultural activities, private sector and public sector employees have lower poverty rates. The incidence of poverty for male headed households is 25.9% compared to 19.1% for female headed households [35]. The report further shows that, more than half of those engaged in service sector activities are above the upper poverty line. Over 48% of household income in Ghana comes from non-farm self-employment. This is followed by wage income (33%), agriculture (14%) while income from rent, remittances and other sources contributes 5% [35]. Non-farm self-employment (informal sector), which contributes almost half of the total household income in Ghana depends largely on microcredit.

Ghana's microfinance industry in context

Ghana recognizes microfinance as an important tool for poverty reduction. The government has therefore linked the overall policy framework for microfinance to the poverty reduction strategy for the country. Since 1989, a number of special credit schemes have been launched by the government aimed towards easing the financial needs of small business entrepreneurs. Examples include Enhancing Opportunities for Women in Development (ENOWID), Microfinance and Small Loan Centre (MASLOC), Business Assistance Fund, Export Development and Investment Fund (EDIF), Youth Enterprise Support (YES) fund and direct poverty alleviation programmers. However, most of the government's support resolving funds have not been successful as a result of political consideration and low recovery rates [37].

The microfinance sector in Ghana is very diverse and fragmented in terms of types of microfinance institutions (MFI) actors as well as the range of services offered. Customer deposits represent the primary source of lending capital throughout the sector. However, financial NGOs that render microfinance services do not take customer deposits. There is a large demand for financial services in Ghana, especially for investment purposes, but in 2010, only 10% of the financial needs of over 3 million customers had been met by both traditional banks and MFI [38]. This is because, from the perspective of borrowers, interest rate are too high and repayment periods too short to embark business developmental or expansion projects. In addition, most customers do not understand terms and conditions, and also oblivious of borrowing requirements [39]. On the other hand, lending institutions most often finds that small business owners lack collateral securities, give false information when accessing loan and so subject borrowers to strict loan application procedures [40].

Challenges of the microfinance industry of Ghana

The liberalization of Ghana's financial sector in the 1990s opened competition, increased and quality services into the microfinance industry. Nonetheless, the sector has been confronted with challenges such as lack of regulatory mechanisms, staffing, funding, credit delivery and management, data/information and dissemination, coordination, loan misapplication and repayment difficulties. The microfinance sub-sector had operated without specific policy guidelines and goals despite government interest and involvement in the industry. The sector has as a result witnessed slow growth, lack of direction, fragmentation and uncoordinated activities [41-44]. Lack of regulatory mechanisms had allowed some MFIs to offer products with deceptive charges and/or products which are easy to obtain without any consideration for risk factors. In consequence, clients have being confronted with indebtedness as well as borrowing from one lender to pay another. Undefined organizational and institutional hierarchies have also given way to overlapping responsibilities among the MFIs [45,46].

Many MFIs in Ghana have no experience personnel capable of developing innovative financial products to suit client needs. For instance, human resource capacities in several MFIs are inadequate for effective operations while microfinance Apex bodies apparently lack adequate cadre of in-house trainers and/or facilitators, as well as in-house monitoring and evaluation units to consistently measure progress of activities within the industry. Random and incoherent training programmes also hamper effective achievements within the sub-sector [43,45,47].

Funding for the sub-sector has been the institutions themselves, government, and development partners. This notwithstanding, available funds for the industry have not been adequate. Besides, microfinance funds from development partners come with a condition that distort commercial microfinance and encourages "social lending" or subsidised loans to the detriment of savings mobilization from clients [45]. Government revolving funds face political pressure in loan disbursement. Such funds had often been disbursed without knowledge about borrowers' working environment resulting in poor loan recovery and unsustainability of the fund [45,48]. As a solution to the funding constraints, there is the need for a central microfinance fund to which MFIs can apply for on-lending and/or capacity building to gradually wean out foreign donors from the microfinance industry in Ghana.

The industry lack specified strategies for credit delivery and therefore unable to fully meet varying demands of different categories of clients including vulnerable groups such as the vulnerable, disabled, women and the youth [45,49,50]. There is also no framework for categorizing and upgrading newly emerging MFIs in accordance with their operational capacities and capabilities [47,49]. Reliable information about operations and clients' data are lacking while at the national level, approaches for data and information gathering and dissemination are not only unstandardized but also weak. This makes it difficult to monitor progress of the sector from a central point [45]. The sector also lack well-defined reporting system for both the government and development partners with regards to interventions and performance records. Adequate database for decision making and planning is also lacking [45,49].

According to GHAMFIN [45], there is neither a formal body that is responsible for coordinating all activities associated with microfinance, nor is there a forum for dialogue among stakeholders on policy and programme issues. As a result, fragmentation, duplication

and inadequate collaboration exist between and among Ministries, Departments and Agencies (MDAs), Metropolitan, Municipal and District Assemblies (MMDAs), development partners, service providers, practitioners and clients [49]. In this regard, there is the need to strengthen GHAMFIN to ensure the transfer of best practices and standards for the industry.

Loan misapplication and its consequences for loan repayment had also been recognised as a challenge for the microfinance sector [51]. There are delays in funds release to borrowers resulting in loan diversion and repayment challenges [52]. This calls for MFIs to monitor and track the cash flow cycles of their clients. Loan officers need to make sure that loan are used for the purposes for which they were given to avoid loan fungibility and default.

The issue of mission drift in microfinance is another challenge that is facing the microfinance sector in Ghana. Many investments in the sector are skewed towards maximizing profit without adequate consideration to social returns. Value addition services to clients which are valuable tools in aiding people out of poverty, such as training and improving awareness on health care, have been neglected by many MFIs. The lack of product diversification has also led to the sector's over-reliance on micro-loans which cannot move borrowers out of sole proprietorship. With field data gathered from microcredit clients of the Upper Manya Krobo Rural Bank's microcredit clients, this paper investigates whether microcredit creates paid jobs for the jobless in the UMK District.

Methodology

The paper used both quantitative and qualitative data gathered from exit and current microcredit clients of the UMK Rural Bank. From a total of 7,584 active microcredit clients, a sample of 380 repeated and permanent clients was selected using Israel (2009) formula for selecting samples where the population is given as: $n = N / [1 + N(e)^2]$ where, n = the sample size N = population and e = alpha level. In addition, 40 exit clients were purposively selected from the Bank's records. The study defined new clients as those who joined the microcredit programme for not more than one year and have benefited from at most three loan cycles; repeated clients were clients who have been with the programme for more than three years; permanent clients were those who started with the programme since 2001 and are still participating in it, while exit clients were those who have participated in the programme at one point in time but have exited out from it as at the time of the study. Exit clients could be either graduate from the intervention who have saved enough and could access loan from the main banking system. Conversely, it could be those who for one reason or another have dropped out of the microcredit programme. A structured interview schedule was used to collect quantitative data.

The questionnaire construction borrowed greatly from guidelines of the Consultative Group to Assist the Poor (CGAP)-USAID Assessing the Impact of Microcredit Services (AMIS) and Small Enterprise and Education Project (SEEP) microfinance assessment tools. AIMS-SEEP tools are internationally accepted tools used to measure or assess the impact of microcredit/microfinance programmes. The tools measure evidence of change in business outputs and household outcomes of microcredit clients as well as clients' perception on loan issues. Since most of the clients were illiterate, the questionnaire which was prepared in the English language was translated into the local language of the respondents and administered on a one-on-one basis. In-depth interview guide, focus group discussion guide and observations were used to gather qualitative data from microcredit clients and

the microcredit staff. The data was processed and analyzed using the Statistical Product for Service Solutions (SPSS) version 16 to generate descriptive results. The unit of analysis was the entrepreneur or the business owner.

Results and Discussion

Like many other MFIs, the UMK Rural Bank's microcredit programme focused mainly on women. This is evident by the fact that out of a sample of 407 clients, women constituted 92%. Some of the argument put forward by MFIs for targeting women were that more women than men are faced with difficulties in accessing financial services. In addition, women, especially those in developing countries are often denied basic human rights, individual dignity, economic and educational opportunities while societal norms and beliefs also create the platform for male dominance in all spheres of life. Therefore MFIs target women in order to empower them as well as bridge the gender inequality gap [47,53-56]. There is also the belief that lending to women benefits the entire household through improved nutrition and contributions to children education [50].

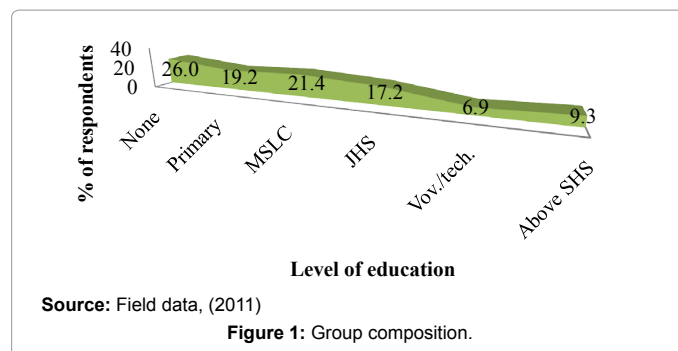
Critics including Mayoux [57] and Wright-Asante [58] however argue that credit to women is not a solution for household welfare and that targeting women without adequate networks and support from their spouses would shift household subsistence burden onto women. This criticism holds especially in the case where the spouse is unemployed or is engaged in menial income earning job. In the UMK District where most of the men are farmers, it emerged from the interviews that clients whose spouses are farmers usually use part of their loans for household needs including health and children's schooling resulting sometimes in repayment challenges and dropouts.

Level of education

Over a quarter (26%) of the clients had no education, 19% had Primary education and 21% had Middle School education. Only 9% had attained Senior Secondary School qualification and higher (Figure 1). The low educational level of the clients is a handicap to business growth since it will restrict their ability to learn modern techniques and acquisition of technical capabilities. It will also restrict their managerial capacity to invest loan in opportunity-driven enterprises. Credit-plus training in financial management, skills acquisition and business management crucial to enable the clients perform better in their activities.

Table 1 shows that almost half (49.9%) of the clients were involved in trading and shop keeping activities followed by hair dressing and dressmaking.

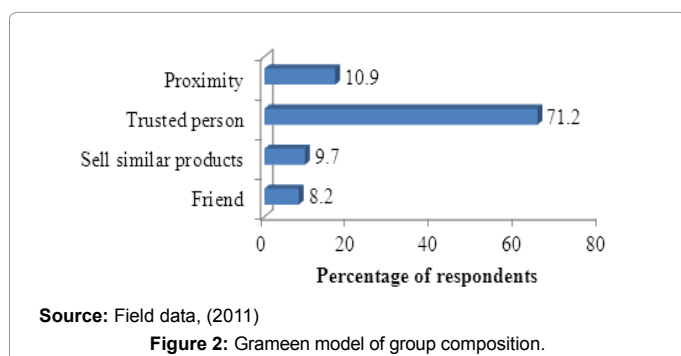
Most of the enterprises of the clients were micro and does not



Type of business	Frequency	Percentage
Dressmaking	54	13.3
Repairs work	2	0.5
Fish mongering	31	7.6
Barbering	8	2
Dressmaking	42	10.3
Trading/shop keeping	203	49.9
Food selling	26	6.4
edible oil extracting	17	4.2
Woodworks	7	1.7
Cloth weaving	14	3.4
Metal works	3	0.7
Total	407	100

Source: Field data, (2011)

Table 1: Type of business activities.



Source: Field data, (2011)

Figure 2: Grameen model of group composition.

require bigger capital outlay. Yet, they could not single-handedly fund these businesses because they were poor. Those that required bigger capital trading or shop keeping, metal and wood works, etc. could not obtain loan from the main banking system because of lack of collateral securities. Therefore, the clients operated their businesses from the micro-level without the opportunity of transforming to small or medium levels. This does not promote business growth and the ability to engage wage workers. This calls for microfinance institutions to increase loan quantum for clients. It is also important for government funding institutions such as the National Board for Small Scale Industries (NBSSI), ENOWID, MASLOC, Business Assistance Fund, EDIF and YES to partner with microfinance institutions to train and adequately fund viable and growth-oriented micro-enterprise operators to expand their horizon and achieve sustainable growth. Those without jobs could then be employed in wealthier enterprises to reduce poverty [32].

Group composition

The Bank adopted the Grameen model of group lending and joint liability which ensures that every client belong to a solidarity group formed mostly along the line of self-selection. The group composition in Figure 2 shows that 71% of the groups consisted of trusted members, 11% were formed out of proximity and 10% were members dealing in homogeneous activities.

Group leaders emphasized that the main criterion for inclusion was trust or the capacity to repay the loan. Therefore, to avoid risky partners, groups are dissolved and new ones formed after every loan cycle. The issue of forming microcredit lending groups on the ability to pay the loan had also been reported by many researchers including [25-

29]. Group members are jointly liable to each other's loan and pairing with trusted partners explains why joint-liability lending is able to generate high repayment rates [59,60]. However, using this criterion for inclusion in microcredit programmes raises the issue of whether group lending is a favourable approach for extending credit to poor people, as this tends to exclude the very poor. A favourable alternative for the microcredit programme to reach out to poorer clients is individual liability loans. For instance, BancoSol in Bolivia, has converted a large share of its group liability portfolio into individual liability lending [61]. The UMK Rural Bank could relax some of the group liability requirements by allowing defaulters to renegotiate their loans in order to retain them in their groups.

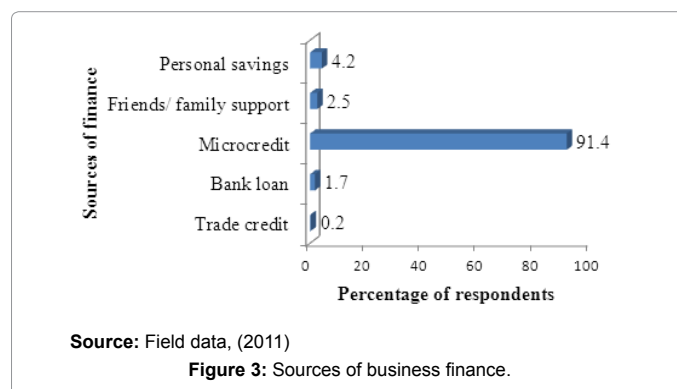
Sources of capital

Among the respondents, 91% funded their businesses from the UMK Rural Bank's microcredit programme. The rest came from personal savings, friend/family support and loans from other banks (Figure 3). The high proportion of the clients who funded their business from microcredit demonstrates the important role it plays in the livelihoods of the clients [1,3,16,62,63]. Indeed, the clients were women and who lack collaterals to access bank loans or afford exorbitant interest on the loan offered by moneylenders in the district. Their only hope was the microcredit programme to support the sole proprietorship enterprises they operated.

Amount of loan obtained

Loans granted range from GHC500 to over GHC10, 000¹, depending on period of participation, type of business and mainly the ability to repay. About 82% of new clients received from GHC 100-500, 30% repeated clients received GHC1,501-2,000, 26% of permanent clients received GHC3,501- 4,000 and 54% of exit clients received more than GHC4,000 (Table 2).

New loans are given to repeated and permanent clients after every member of the group had completed repayment. This means that loans could be disbursed at any time of the year irrespective of the seasonal fluctuation of economic activities of the district. The implication is that loans could be disbursed to clients at a time when the loan was not needed for investment. The result is using loan for other purposes some of which could be unproductive. Adverse consequences in mismatch in economic activity and loan disbursement had also been reported in Bangladesh where Imai, and Azam found widespread diversion loans to non-profitable activities such as marriage, funeral activities and extravagant spending leading to repayment difficulties and high



Source: Field data, (2011)

Figure 3: Sources of business finance.

¹US\$1 is equivalent to GHC3.40.

Amount of last loan	New clients (%)	Permanent clients (%)	Repeated clients (%)	Exit clients (%)
100-500	81.8	-	1.9	-
501-1,000	14.6	6.0	23.1	-
1,001-1,500	1.2	14.2	12.5	15.3
1,501-2,000	1.2	10.4	26.9	7.7
2,001-2,500	1.2	1.5	10.6	3.8
2,501-3,000	-	6.0	4.8	3.8
3,001-3,500	-	18.6	2.5	7.6
3,501-4,000	-	26.1	9.4	11.5
4,001+	-	17.2	8.3	53.8
Total	100.0	100.0	100.0	100.0

Source: Field data, (2011)

Table 2: Amount of last loan respondents received by category of client.

Use of loan	Number	Percentage
Business expansion	230	56.3
Addition of new products	210	51.6
Add more workers/apprentices	230	52.6
Bulk buying of raw materials	311	76.5
Opened new paid businesses	23	5.7

Source: Field data, (2011)

Table 3: Use of loan.

drop-out rate. Similarly, Ekong and Onye attributed the basic factor responsible for poor loan performance in Nigeria to the failure to match credit with seasons. Ekong and Onye observed that loans disbursement flow to farmers in that country disregarded the seasons and this not only reduce growth and productivity of agriculture but also resulted in poor loan recovery rates.

Use of loans

The theory of microcredit assumes that access to and investment of loan results in increased output, profits, net income and improvement in well-being [12,13,64]. The UMKR Bank employs the dynamic incentive strategy, which offers clients the opportunity to increase the amount of loans after each loan cycle. Loan increment after each cycle is usually used as a repayment incentive and perhaps to match the increasing financial requirements of the clients over time [65]. Despite this strategy, the loans were still inadequate to contribute to the transformation of micro-enterprises into small or medium ones.

The clients used loans for various purposes such as for paying school fees, servicing debts, acquiring assets, expanding business, etc. The focus of this paper is to examine whether microcredit creates new paid jobs for the jobless. In this vain, the purposes for which the clients used their loans are central to this study. From Table 3, 77% of the respondents used loan to bulk buying of raw materials, 56 expanded their businesses and 53 added more workers/apprentices. Only 6 % of the respondents claimed to have opened new businesses. According to them, the loans they received were inadequate for investment in new businesses. Besides, they lack skills to open new businesses such as fruit processing and soap making, even though raw materials and market for such activities abound in the district.

From the perspectives of the clients, “added new products” refer to adding other products similar to the existing activity. For instance, a seamstress started selling tailoring or dressmaking accessories such as buttons, sewing thread and textile fabrics in addition to her normal sewing work. The study found that the clients were more likely to add

new products to existing ones rather than establish new businesses due to the size of the loans, lack of skills and the market niches in which they operated. The interviews revealed that improvement on existing businesses were more pronounced than the development of completely new ones, an observation also documented by [8,12,64]. From a study in the Caribbean, Hossain, Knight and Arun, [14] discovered that in order to add completely new businesses to existing ones, the entrepreneurs needed capital hardly obtained from microcredit schemes. This finding buttresses the notion that microcredit enhances self-employment instead of influencing completely new employments. The loan can be used to buy business input in bulk at a cheaper price to increase profit [64].

Use of loan for business expansion varied among the clients. The logistic regression in Table 4 shows that female clients, clients who were married, those with vocational/technical and SHS and higher levels of education, clients with more than 4 years of participation, exit clients as well as clients whose spouses were government employees were more likely to expand their businesses after controlling for use of loan for other activities. These relationships are positive and statistically significant at 95% confidence level (Table 4).

Among the reasons why many MFIs target women was that women have higher repayment capabilities compared to their male counterparts. This implies that women client use more of their loans for business activities to earn interest and thus are able to repay the loan. The clients who were married also invested more of the loan because it is possible that household responsibilities were catered for by their spouses compared to single clients who had to bear all their household expenses. Education is vital in the socio-economic

Variable	Category	Odd ratio	95% Sig.	P-value
Gender	Male	Ref		
	Female	1.347	.413-4.066	.000
Age	Less than 18	Ref		
	30-39	2.421	.631-2.513	.247
	40-49	1.246	.241-1.627	.602
	Above 50	.962	.677-1.334	.452
Marital status	Single	Ref		
	Married	3.127	.561-1.659	.000
Education	None	Ref		
	Primary	1.411	.648-4.116	.467
	MSLC	.753	.448-1.246	.452
	Voc./tech.	1.105	1.225-3.475	.000
	Above SHS	2.876	1.859-3.473	.000
Type of business	Petty trader	Ref		
	Artisans	1.231	.997-1.337	.579
	Food selling	3.227	1.243-2.463	.335
	Shop keeping	2.314	3.223-6.217	.663
Participation period	Less than 1yr.	Ref		
	2-4 yrs.	1.024	.778-1.045	.343
	More than 4 yrs.	1.498	1.119-2.671	.000
Spouse occupation	Exit member	3.336	4.556-7.448	.000
	No spouse	Ref		
	Farmer/fishing	.764	.548-4.127	.421
	Trader	1.004	1.005-2.661	.861
	Govt. employee	4.477	3.476-8.199	.000
	Unemployed	1.284	.997-1.227	.397

Source: Field data, (2011)

Table 4: Logistic regression loan use by demographic characteristics of clients.

dimensions of an entrepreneur. In the case of microcredit, low level of education constitutes a handicap to entrepreneurial capability and business growth. For example, business management techniques in addition to larger loan amount will improve investment in enterprises that have the potential employment generation for the jobless.

Category of workers

Nearly 72% of the people working with the microcredit clients were apprentices, 21% were unpaid relatives and 6 % were wage earners. Only 1% were casual workers or graduate apprentices (Figure 4). According to Balkenhol [66] direct employment generation is not an explicit goal of microfinance but MFIs invariably include it as one of their objectives. Evidence from this paper suggests that microcredit mainly affects self-employment and unpaid household labour. Hulme and Mosley [25] also reached the same conclusion; that micro-loans had very limited impact on employment outside the household. Higher employment impacts were only found in rapidly growing economies as observed in China [22].

Other findings that support the reason why microfinance interventions lack employment generation capability was that limited rural markets inhibit continuous business growth as well as the widespread use of loans for purposes other than income-generating activities. The interviews revealed that wages for workers were so low that only six % work as store keepers, hawkers and shop vendors for wages. Therefore, microcredit clients most often relied on relatives or family members, an observation also documented by Majid [67], Balkenhol [66] and Bauchet & Morduch [68,69]. Similarly, the Financial Access Initiative, a research centre based in New York University in a study reported that microcredit programmes hardly resulted in employment openings. The study concludes that microcredit can help reduce rural unemployment by boosting self-employment [70-74].

Conclusion

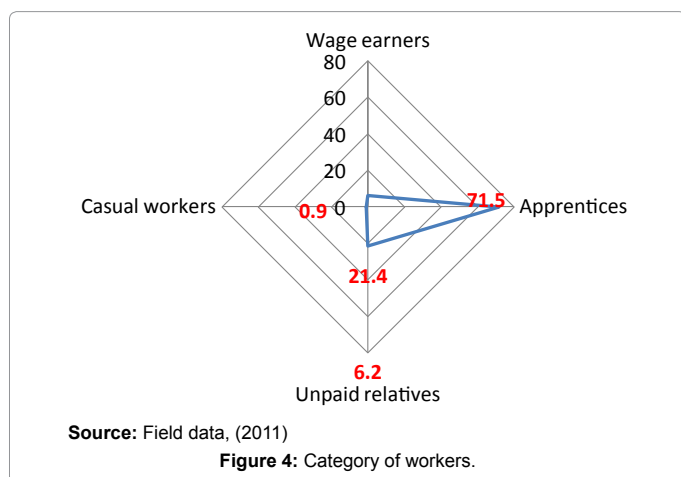
This paper has found no strong evidence that microcredit supports wage employment through entrepreneurship as claimed by some MFIs. Instead, microcredit clients are trapped in self-employment as they continually get involved in survival activities. Group formation and composition depend on those already engaged in an income generating activity and with the ability to repay the loan. The loan quantum that the clients received was inadequate for investment in enterprises that have the potential of employing wage workers. The paper found that apprentices and unpaid relatives constituted the main workforce of

the clients. Client's level of education was low and this is a handicap to entrepreneurial qualities, competence and business growth. If microcredit clients continue to receive small loans in addition to lack of the requisite skills to take risk in investing larger businesses, then the overall economic system cannot grow to the stage where one would expect job opportunities that will lead to poverty reduction.

The microfinance industry in Ghana requires a holistic approach in addressing the challenges outlined in this paper. There is a need for better coordination among the various stakeholders and the development of a robust regulatory framework and performance benchmarks for all microfinance service providers. It is important for MFIs to come out with product innovations that would allow growth-oriented clients to transform their enterprises from micro to small or medium enterprises. It is not enough to start and sustain self-employment but there is the need also to provide avenues for increased productivity through larger enterprises such that employments are created for people to earn wages. This would not only pave way to wage employment, economic growth and poverty reduction but also help to strengthen the sector and improve the quality of microfinance in Ghana.

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Citation: Emmanuel KT, Frempong G, Obirih-Opareh N, Rose O (2015) Does Microcredit Create Employment For the Poor? The Case of the Microcredit Scheme of Upper Manya Krobo Rural Bank in Ghana. Bus Eco J 7: 190. doi:[10.4172/2151-6219.1000190](https://doi.org/10.4172/2151-6219.1000190)

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