

## SOCIO-ECONOMIC COVARIATES OF DEMAND FOR PERSONAL LOAN IN THE KUMASI METROPOLIS OF GHANA

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### ABSTRACT

Poverty tends to be one of the major challenges confronting various countries in the world, in which Ghana is no exception. However, one of the most effective means of fighting poverty is through loans. This study therefore investigated the socio-economic factors that influence the demand for personal loans in the Kumasi Metropolis of Ghana by purposively sampling 800 respondents and adopting the binary probit regression technique as the empirical model of estimation. The study found that, females, those with tertiary education, respondents with bigger household sizes, respondents who were employed and those with ages 41-50 years and 51-60 years, were more likely to demand for personal loan. Further, those who were 61 years and above were less likely to demand for loans. Thus policies towards ensuring better access to loans should have the unemployed, aged (61 years and above), as well as the uneducated or less educated in mind.

**Keywords:** Demand for Personal Loan; Ghana; Poverty; Urban.

### INTRODUCTION

Poverty remains an albatross on the neck of most nations especially developing ones. This is because poverty tends to have negative repercussions in all facets of life which if not tackled may end up becoming hereditary. Given the above, various governments have poverty alleviation as one of their top most priorities and hence it was not surprising that combating poverty was one of the Millennium Development Goals (MDGs) and also part of the current Sustainable Development Goals (SDGs).

In the quest to combat poverty, one of the major solutions offered has to do with the provision of loans or micro credit to individuals. Therefore policies have always focused on how to make loans easily accessible to people especially the vulnerable in society. Thus with easy access to loans, the expectation is that it would translate into the ability to afford quality healthcare, food and water, better education, clothing, shelter and so on. Thus loan or micro credit is seen as an avenue through which the well-being of people especially the vulnerable in society can be transformed totally.

Given the above, this study contends that any policy towards ensuring easy access to loans must know the features of those who can demand for loan and those who cannot in order to inform effective policies. This study therefore sought to investigate the socio-economic determinants of demand for personal loans in the Kumasi Metropolis of Ghana given that Ghana has a relatively higher level of poverty and hence striving to combat poverty as part of the SDGs. On the empirical literature, Eleni (n.d) among other factors found that the employed were more likely to

get loans in Greece. Manrique and Ojah (2004) contend that family size, transitory and permanent incomes, education among others, affect Spanish households' desire and capacity to hold loans. Guérin, Morvant-Roux, Roesch, Moisseron and Ould-Ahmed (2011) have also studied the Determinants of Demand for Financial Services in Rural Morocco.

On Ghana, Boakye and Amankwah (n.d) found educational level, financial literacy, income or expense stability, access to electricity, urban residence, access to communication channels and local's perception about inherent benefits of products as the determinants of using financial product in Ghana. Bendig, Giesbert and Steiner (n.d) found in Rural Ghana that aside the socio-economic and demographic household features, past exposure to shock and attitude towards risk tend to be significant determinants of household demand for (Micro) financial services. Akudugu (2012) found that the major determinants of demand for credit by farmers are gender, age of farmers and political affiliations among others in the Upper East Region of Ghana. Hananu, Abdul-Hanan and Zakaria (2015) found education, age, source of credit and group membership to be the factors that positively influence agricultural credit demand in Northern Ghana. Anang, Sipiläinen, Bäckman and Kola (2015) revealed household income, gender, farm capital, awareness of lending institution, farm location among others to be the factors influencing access to agricultural microcredit in Northern Ghana. Bendig, Giesbert and Steiner (2009) found poorer households to be less likely to take part in the formal financial sector than better off households. From all the studies above on Ghana, this study is unique because it focused entirely on a typical urban setting (Kumasi Metropolis) and studied how socio-economic factors affect the demand for personal loan. This is because even though urban areas are normally relatively better off, this study contends that there could be some vulnerable groups who may be over shadowed by the mostly less vulnerable individuals in terms of access to personal loans in urban centers, and hence must be given the needed attention.

## **Data and Methods**

This study solely relied on primary data in the form of administered questionnaire by purposively selecting 800 respondents who were 18 years or above in the Kumasi Metropolis of Ghana from early-November to mid-December, 2016. The respondents were asked whether they have ever demanded for personal loans from any financial institution before. Aside the information on loan, data on the socio-economic backgrounds of respondents was gathered. Therefore given that the demand for personal loan, which is the dependent variable of the study had two responses (Yes (1) or No (0)), the study adopted the binary probit regression model as the empirical model of estimation. With regards to the independent variables, aside household size that was numeric, all the remaining ones were categorical and hence the study treated all of them (categorical variables) as dummy variables.

## **RESULTS AND DISCUSSION**

### **Descriptive Statistics**

This section presented a description of the backgrounds of respondents as shown in Table 1 below.

**Table 1: Socio-Economic Background of Respondents**

<b>Variable (N=800)</b>	<b>Percentage</b>
<b>Demand for Loan</b>	
Yes	60.25
No	39.75
<b>Gender</b>	
Female	59.38
Male	40.63
<b>Age</b>	
18-30 years	25.63
31-40 years	40.88
41-50 years	25.50
51-60 years	6.75
61years and above	1.25
<b>Employment Status</b>	
Employed	67.00
Unemployed	33.00
<b>Religion</b>	
Christianity	71.25
Islam	26.13
Traditional/other	2.63
<b>Educational Level</b>	
Uneducated	3.25
Basic/Junior High School(JHS)	31.38
Senior High School (SHS)	31.38
Tertiary	34.00

**Source: Authors' Computation from Field Survey, 2016.**

Out of the sampled respondents, 60.25% had demanded a personal loan before whilst 39.75% said they have never demanded. Thus majority of the respondents had demanded a personal loan before. Also 59.38% of the respondents were females while 40.63% were males. In addition, 25.63%, 40.88%, 25.50%, 6.75% and 1.25% of them were between 18-30 years, 31-40 years, 41-50 years, 51-60 years and 61 years and above respectively. Also majority of the respondents (67%) were employed whilst 33% were unemployed. Also 71.25%, 26.13% and 2.63% of the respondents belonged to Christianity, Islam and Traditional/other religion respectively. With regards to respondents educational background, 3.25%, 31.38%, 31.38% and 34% had no education, basic education or Junior high school education, Senior high school education, and Tertiary level of education respectively. Thus most of the respondents were educated.

### **Regression Results**

This sub-section presented the probit regression results on the determinants of demand for personal loans among the sampled respondents.

**Table 2: Probit Regression Estimates on the Socio-Economic Covariates of Demand for Loans**

Variable	Coefficient	P-value	Standard Error
<b>Gender</b>			
Male (Reference Group)			
Female	.2877452	0.004	.0998916
<b>Age</b>			
18-30 years (Reference Group)			
31-40 years	.1966952	0.110	.123116
41-50 years	.3489636	0.012	.1384118
51-60 years	.5891723	0.006	.2162294
61 years and above	-.9166188	0.055	.4786407
<b>Employment Status</b>			
Employed	.269742	0.010	.1048327
Unemployed (Reference Group)			
<b>Religion</b>			
Christianity	-.3995683	0.185	.3012
Islam	.0674397	0.829	.3128386
Traditional/other (Reference Group)			
<b>Educational Level</b>			
Uneducated (Reference Group)			
Basic/Junior High School (JHS)	-.1185844	0.687	.2943394
Senior High School (SHS)	-.1060791	0.721	.2965907
Tertiary	.4937701	0.096	.2963113
<b>Household Size</b>	.1951517	0.000	.0252148
<b>Constant</b>	-.7318309	0.069	.4023004

Source: Authors' Computation from Field Survey, 2016. Number of obs = 800; Prob > chi2 = 0.0000.

From the results on the determinants of demand for personal loan, the study showed that females were more likely (positive 1% significant coefficient) to demand for personal loan than their male counterparts given the P-value of 0.004 which was significant at one percent. Similar finding was revealed by Akudugu (2012) among farmers, Hananu et al. (2015) and Anang et al. (2015) both in Northern Ghana. This could be attributed to the typical nature of the Ghanaian society where most females try to find means of survival for the family especially when the men are incapable. Thus, showing a good sign since women are perceived to be much more vulnerable than men.

Further, the coefficients of respondents who were between 41-50 years and 51-60 years were positively significant at 5% and 1% respectively while the coefficient of those who were 61 years and above was negatively significant at 10%. Thus respondents who were between 41-50 years and 51-60 years were more likely to demand for personal loan while those who were 61 years and above were less likely, all as compared to those who were between 18-30 years (reference group). Thus the relatively older age groups (41-50 years and 51-60 years) except the most aged group (61 years and above), were more likely to demand for personal loan than the younger age groups (18-30 years) which could be attributed to the fact that the relatively older group of people (41-50 years and 51-60 years) are more likely to have higher financial responsibilities relative to the younger ones. This finding is similar to that of Akudugu (2012) among farmers in the Upper East Region of Ghana and Hananu et al. (2015) in Northern Ghana. However the most aged group (61 years and above) were found to be less likely to demand for personal loan as compared to those who were 18-30 years. This could be that those who are 61 years and above are mostly retirees who would be unemployed and hence would be depending on other family members who are relatively younger and working and hence may not be willing or able to demand for personal loans.

Also the employed were found to be more likely to have demanded for personal loan relative to the unemployed. Thus since collateral is normally required when loan is demanded and the employed are more capable of providing collateral, they would be more likely to demand for personal loans relative to the unemployed. Similar result was found by Eleni (n.d). Also the study revealed that the higher the household size, the higher the likelihood of demanding for personal loan. This could be that since greater households are more likely to have more dependants, the higher would be the demand for loan in order to support the family. This finding conflicts with those of Hananu et al. (2015) in Northern Ghana.

Last but not the least, respondents with tertiary level of education were more likely to demand for personal loan than their uneducated counterparts. This could be that, the educated are more enlightened to understand the benefits of borrowing relative to the uneducated. This finding is similar to that of Akudugu (2012) and Hananu et al. (2015) in Northern Ghana.

## **CONCLUSION AND RECOMMENDATION**

From the findings it can be concluded that, household size, gender, level of education, age and employment are the determinants of demand for personal loan in the Kumasi Metropolis of Ghana. Thus policies towards ensuring better access to loans should have the unemployed, aged (61 years and above), the younger age group (18-30 years) and the uneducated or less educated in mind.

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