

## Chapter 17

# Analysis of Factors That Affect the Use of Microfinance for Microbusiness Development in Ghana

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### ABSTRACT

*This chapter examined the factors that affect the use of microfinance for microbusiness development in Ghana. The study employed semi-structured survey questionnaire to determine whether an entrepreneur's personal attributes impede or facilitate microbusiness development in Ghana. Multiple linear regression analysis was conducted to determine the effects of entrepreneur's personal attributes on the monthly sales, number of employees, business assets, and capital stock of microbusinesses that received credit from a microfinance provider in the northern region of Ghana. The findings of the study suggest that micro-entrepreneur prior work experience, occupation, and prior income facilitate the use of microfinance for microbusiness development. These findings have policy implications for the government of Ghana and other agencies that are interested in using microfinance as a catalyst for economic growth in deprived communities in the country.*

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## **INTRODUCTION**

The widespread use of microfinance as a key source of finance for microbusinesses in developing countries and recently in some developed countries has generated several studies that have attempted to determine its impact on microbusiness growth. For instance, Rotich, et al. (2015) found that the provision of microfinance increased the performance of microbusinesses in Sub-Saharan Africa. Similarly, analysis of Mochona (2006) suggests that clients of microfinance institutions in Ethiopia may have improved their level of sales from the use of microfinance. This view is consistent with Cooper (2012) who argues that microfinance services have helped businesses in Kenya to grow their monthly sales from micro to small and from small to medium. Microfinance has also been reported to have made a positive contribution to the development of microbusinesses in Asia. In particular, a study conducted in Malaysia found that microfinance impacted positively on total assets of microbusinesses (Al Mamun, et al., 2012). This may explain why Kondo, et al. (2008) concluded that generally, microfinance increases microbusiness productivity and creates jobs for the poor.

Other narratives from existing microfinance literature suggest that the personal attributes of the micro-entrepreneur may have influenced the growth of microbusinesses in developing countries. Taiwo, et al. (2016) for example, found that businesses owned by male micro-entrepreneurs generate more employment than those owned by their female counterparts. Also, a study conducted in Kenya by Naituli, et al., (2006) found a significant positive relationship between the age of the entrepreneur and the sales revenue of micro and small enterprises. Furthermore, Vikas and Vijayalakshmi (2017) have shown that the educational qualification of micro-entrepreneurs impacted positively on the sales of women enterprises in India. The influence of an entrepreneur's work experience and ethnicity on microbusiness development has also been reported by various researchers. Cabrera and Mauricio (2017) for instance, found a positive relationship between an entrepreneur's work experience and capital stock. Wang and Altinay (2012) have also shown that a significant positive relationship exists between the ethnicity of entrepreneur and microbusiness employment growth. Further evidence from existing literature also suggest that key attributes of a microbusiness such as the type of business, industry sector, location, source of capital and duration of operation may also influence microbusiness development (Mshenga, et al., 2010, Osei-Assibey, et al., 2012, Gill and Biger 2012, Kanyare and Mungai 2017, Li and Rama 2015).

However, further analysis of existing literature suggest that characteristics factors that impede or facilitate the use of microfinance for microbusiness development in developing countries particularly in Ghana has been under research. This raises the question: what are the distinctive factors that impede or facilitate the use of microfinance for microbusiness development in Ghana? The aim of this chapter therefore is to cover this knowledge gap by analysing the distinctive factors that impede or facilitate the use of microfinance for microbusiness development in Ghana.

## **BACKGROUND**

Researchers who have attempted to describe microfinance rather explained the services microfinance institutions provide which in actual sense differ depending on the provider and the context within which such services are provided. Microfinance according to Ledgerwood, et al. (2013) is a combination of financial services made up of loans and savings designed purposely to alleviate poverty. Equally, Ebo-muche, et al. (2014) define microfinance as the provision of credit at higher interest rates to individuals

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