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## **Assessment of the Contribution of Microfinance to Entrepreneurship Development in MOGADISHU**

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### **Abstract**

Delivery of microfinance services to operators of small and medium enterprises (SMEs) is increasingly being viewed as a strategic means of assisting growth and development. The purpose of this study was to assess the contribution of microfinance to entrepreneurship development in Mogadishu. Survey research design was adopted and Primary data was collected by using questionnaires. This research study used purposive sampling method to select 120 respondents; but 108 were found usable and analyzed. The data was analyzed using descriptive statistics. This study found the access of microfinance services to the SMEs is poor. This study also found due to the collateral, short term repayment challenges, small and medium businesses are difficult to access loan from microfinance institutions which hinder their entrepreneurship development. In addition to these, this study found that the Microfinance institutions play significance role to the growth and sustainable development of SMEs and also increases the productivity and profitability of small and medium enterprises. This study recommends the guidelines of microfinance institutions to finance SMEs needs to be flexible and microfinance institutions should give technical assistant to the SME to ensure success in the SME sector. The study also suggests access of microfinance services to the SMEs should be facilitated and awareness to microfinance purposes and activities should be created.

**Keywords:** Microfinance, Entrepreneurship Development, Microfinance Institutions, Entrepreneurship, Small and Medium-Scale Enterprises.

### **1. Introduction**

The best known Microfinance hits the history in Bangladesh when Dr. Muhammad Yunus, Father of Microfinance and winner of Nobel peace prize, lend the first micro loan from his own pocket (Abdul Rahman, 2007). The aim was to save the poor people from the local moneylenders who charged high interest rates and also to establish income generating activity for them. In 1976, Muhammad Yunus started the research project to provide microcredit and banking services to the poor people (Aftab & Naveed, 2013).

In Somalia, According to United States Agency for International Development [USAID] (2014), Microfinance has not penetrated far in Somalia, although past efforts by NGOs were failed, because of either microloans were bundled with humanitarian assistance and perceived as grants, or because the interest charge wasn't viewed as Sharia-compliant. Sharia-compliant forms of Microfinance Institutions (MIFs) are now opening up the market and a

number of organizations, including hawalas, are entering the micro lending field. The popular leading of these MIFs are Dahabshiil International Bank, Salama Somali Bank, Kaah Islamic Microfinance and other Microfinance Institutions. Generally, the accessibility of a good financial service is considered as one of the engines of economic development (Yehuala, 2008). Access to capital is critical in the promotion of entrepreneurship development particularly microenterprises (Bharti & Shylendra, 2011). Similarly, Muktar (2009) stated credit as a precondition to the growth of enterprises (entrepreneurship).

In Somalia, the growing rate of graduate unemployment in Somalia poses a challenge not only to individuals but also to the government. At the individual level, the establishment of business enterprises particularly SMEs has been a resort to gainful employment. Unfortunately, in Mogadishu, the accessibility of microfinance services could be considered difficulty to Small and medium businesses due to the heavy collateral requirement that MFIs may impose (Hadi, Hafiz & Ali, 2013). Therefore, this study attempts to investigate the situation in Somalia by providing more empirical evidence to the contribution of microfinance to entrepreneurship development. Therefore, the specific objectives of this are:

1. To examine the extent of accessibility of microfinance services by Small and Medium Scale Enterprises (SMEs) in Mogadishu.
2. To examine the challenges Small and Medium Scale Enterprises (SMEs) face from entrepreneurship development in Mogadishu.
3. To assess the contribution of Microfinance Institutions on entrepreneurship development particularly SMEs in Mogadishu.

## **2. Research Methodology**

This section was focused on the research techniques adopted and used for this study with the aim of achieving the research objectives. Survey research design is used in this study. Survey research design was chosen because the sampled elements and the variables that are being studied are simply being observed as they are without making any attempt to control or manipulate them and this study also was employed quantitative approach to analyze data. Purposive sampling technique was employed in selecting the 120 SMEs (respondents) that constituted the sample size of the research. To achieve the objectives of this study, Primary data for the study were gathered by using structured questionnaires because of it are the main method of data collection.

## **3. Findings and Discussions**

This section was highlighted on data analysis, presentation, and interpretation. The first part was presented the respondents profile or demographic data, the second part deals with presentation, interpretation, and analysis of the research questions and objectives while, third part presents findings and discussions.

### **3.1. Demographic Information of the Respondents**

This part presents the background information of the respondents who participated in the study. The purpose of this background information was to find out the characteristics of the respondents and show the distribution of the population in the study. Their distribution is established as it following table 1.

**Table 1:** Demographic Characteristic of the Respondents

Characteristics of the Respondents	Classification	Percent (%)
Respondent's Gender	Male	82.4
	Female	17.6

	Total	<b>100.0</b>
Respondent's Age	Less than 25 Years	34.3
	26-40	50.0
	Above 40	15.7
	Total	<b>100.0</b>
Respondent's Qualification	None	22.2
	Elementary	15.7
	Secondary	22.2
	University Level	39.8
	Total	<b>100.0</b>
Business Experience	Less the 1 Year	15.7
	Two-Five Year	45.4
	Six-Eight Years	13.0
	Above Eight Years	25.9
	Total	<b>100.0</b>
Type of industry	Electronics	21.3
	Cloths	30.6
	Cosmetics	14.8
	Services	18.5
	Others	14.8
	Total	<b>100.0</b>

Source: Field Data, 2016

As shown in the above table, the respondents were asked to specify their gender, 82.4% of the respondents were male and 17.6% of the respondents were female. This indicates the majority of the research participants were male. In terms of age, 34.3% of the respondents were less than 25 years; majority and half (50%) of the respondents were at the age 26-40; 15.7% of the respondents were above 40 years. In terms of their qualification, 22.2% of the respondents have no formal education at all; 15.7% hold elementary education; 22.2% of the respondents have secondary education; and majority of the respondents, which is equal to 39.8% were university level. In terms of business experience, 15.7% of the respondents have less than one year business experience; 45.4% of the respondents have between two to five years of experience; 13% have of the respondents have six to eight years of business experience; 25.9 of the respondents have above eight years of business experience. In terms of their business industry, 21.3% were electronics industry; 30.6% which are the greatest proportion worked in cloths industry; 14.8% were in the cosmetics; 18.5% were in the services while the rest of the respondents (14.8%) reported other industries.

### **3.2. Data Presentation and Analysis**

#### **3.2.1. Accessibility of Microfinance Services to the SMEs.**

The first objective of this study was to describe the credit accessibility for Small and medium enterprises in Mogadishu. To achieve this objective, respondents were subjected to a number of questions and were aimed at investigating the respondent's response towards the stated research objective. The results are presented in the following table2.

**Table2:** Credit Accessibility of the SMEs

Sources of Capital	Personal Saving	32.4
	Family	39.8
	Loan from Microfinance Institutions	4.6
	Partnership	14.8
	Others	8.3
	<b>Total</b>	<b>100.0</b>
Purpose of the Capital	To start business	42.6
	To expand existing business	57.4
	<b>Total</b>	<b>100.0</b>
Access to Microfinance Institutions Services	Regular	7.2
	Irregular	11.9
	No access	80.9
	<b>Total</b>	<b>100.0</b>

Source: Field Data, 2016

As above table shows, 32.4% of the respondents use personal saving as their primary source of capital; 39.8% of the respondents acquire capital from their families; 4.6% acquire capital from Microfinance Institutions; 14.8% acquire capital from their partners; and 8.3% acquire capital from other sources. This indicates that the majority of the respondents acquire capital from families. On other hand, the minority of the respondents acquire capital from Microfinance Institutions. Similarly, as the table 4.2 shows, 42.6% respondents take loan to start a business while 57.4% are those that take loan to expand their business operations. In terms of level of access of Small and Medium enterprises to the Microfinance Institutions Services, 7.2% of the respondents have regular access to Microfinance Institutions Services. It also clear that 11.7 have irregular access to Microfinance Institutions Services. However, a greater majority of the respondents representing 81.2% have no access to MFIs services.

### 3.2.2. Challenges SMEs Face from Entrepreneurship Development

The second objective of this study was to examine the challenges facing by Small and Medium Enterprises from entrepreneurship development. The results are presented in the following table 4.3.

**Table 3:** Challenges SMEs Face from Entrepreneurship Development

Descriptive Statistics			
Challenges SMEs Face	Mean	Std. Deviation	Interpretation
Access to financial services by Small and Medium Enterprises is normally seen as one of the constraints limiting their benefits from credit facilities	3.74	1.263	Agree
Lack of access to credit by the Small and Medium Enterprises may have negative consequences for the businesses.	3.90	.995	Agree
Banks are frequently reluctant to support Small and medium businesses that want to expand their businesses with a loan.	3.67	1.085	Agree

Accessing microfinance service by small and Medium businesses is considered to be difficulty	3.70	1.217	Agree
Request for collateral is major challenge to access for credit	4.09	1.019	Agree
Repayment period/time is considered as challenge facing SMEs	3.65	1.179	Agree
<b>Overall Mean Index</b>	<b>3.79</b>	<b>1.13</b>	<b>Agree</b>

Source: Field Data, 2016

As table 3 shows, respondents were asked several questions related to the challenges that SMEs face from entrepreneurship development. These questions include: Individual Collateral, Repayment period/time, Lack of access to credit by the SMES may have negative consequences for Small businesses; Banks are frequently reluctant to support SMEs that want to expand their businesses with a loan, Accessing microfinance service by small businesses is considered difficulty, and Access to financial services by SMEs is normally seen as one of the constraints limiting their benefits from credit facilities. These questions scored an overall mean of 3.79 and standard deviation of 1.13. This falls under “agree” in accordance with scale of the study.

### 3.2.3 Contributions of Microfinance Institutions to Entrepreneurship Development.

The third objective of this study was to assess the contribution of MFIs on entrepreneurship development particularly SMEs in Mogadishu. To achieve these objectives, Respondents were subjected to a number of questions to provide answers to these research questions. The results are presented in the following table4.

**Table 4:** Contributions of MFIs to Entrepreneurship Development.

Descriptive Statistics			
	Mean	Std. Deviation	Interpretation
Microfinance institutions are significance to the sustainable development of SMEs	4.34	.781	Strongly Agree
MFIs contributed Increases the number of entrepreneurs who Starting new venture	4.18	.982	Agree
Microfinance institutions credit increases the profitability of the small and medium enterprise	4.08	.673	Agree
SMEs can increases their productivity through getting training and consultation from MFIs which leads enterprise growth	3.55	1.101	Agree
Inadequate capital and high cost of operations are constraints to effective contributions by MFIs to SMEs growth	3.76	1.051	Agree
Providing training and financial literacy programs to SMEs will significantly contribute to their development	4.03	.716	Agree
Financial management and counseling services to SMEs through workshops and seminars influences their growth and survival	3.95	.928	Agree
Microfinance institutions play significant role to the growth and development of SMEs	4.47	.603	Strongly Agree
<b>Overall Mean Index</b>	<b>4.045</b>	<b>0.854</b>	<b>Agree</b>

Source: Field Data, 2016

As table 4 shows, respondents were asked questions related to the contribution of microfinance to entrepreneurship development. These questions include: MFIs are significance to the sustainable development of SMEs, MFIs contributed Increases the number of entrepreneurs who starting new venture, Microfinance institutions credit increases the profitability of the small and medium enterprise, SMEs increases their productivity through getting training and consultation from MFIs which leads enterprise growth, Inadequate capital and high cost of operations are constraints to effective contributions by MFIs to SMEs growth, Providing training and financial literacy

programs to SMEs will significantly contribute to their development, Financial management and counseling services to SMEs through workshops and seminars influences their growth and survival, MFIs play significant role to the growth and development of Small and Medium Enterprises. The overall mean of the scale questions were 4.045 and standard deviation of 0.0854 which falls under “agree” in accordance of the scale of the study.

### **3.3. Finding and Discussions**

This section attempts to provide vivid interpretation of the findings obtained relating to the objective of the study and also compare the findings to what other scholars have said as noted under literature review. Data was gathered and analysis was conducted to establish the relative contribution of Microfinance on entrepreneurship development of Small and Medium Enterprise in Mogadishu.

However, the first objective of this study was to examine the extent of accessibility of microfinance services by Small and Medium Scale Enterprises (SMEs) in Mogadishu. The researchers found from the analysis that, family and personal savings are the most accessible sources of finance to SMEs in the Mogadishu. Results also revealed, most of the SMEs operators stated that other sources of finance especially MFIs are not within their reach. Thus, they fall back on personal savings, and family and friends to meet their finance needs. Therefore, researchers identified the access to MFI services by SMEs is poor. This finding repeats earlier submissions to Nkamnebe (2008) that entrepreneurs look for credit from other sources like friends and families than from MFIs. Likewise, researcher also found that the access of the SMEs to microfinance services is poor. This findings is consistent to work (Oni et.al 2012) who discovered that access to MFI services by SMEs is poor.

On the other hand, the second objective of the study was to examine the challenges Small and Medium Scale Enterprises (SMEs) face from entrepreneurship development in Mogadishu. Researcher found that the Small businesses in Mogadishu are facing challenges to entrepreneurship from MFIs and this results many small businesses to demise soon or may not be started due to lack of ability to overcome the challenges. The challenges identified include: Individual Collateral, Repayment period/time, Lack of access to credit; and Banks are frequently reluctant to support SMEs those want to expand their businesses with a loan. Due to the above mentioned challenges, small and medium businesses are difficult to access loan from microfinance institutions which hinder their entrepreneurship development. Therefore, the findings is in line with (Ojo, 2009; Ali et al., 2013) that states SMEs have strong need to have money borrowed from MFIs if there is no rigid challenges and requirements.

Finally, the third objective was to assess the contribution of Microfinance Institutions on entrepreneurship development particularly SMEs in Mogadishu. The researcher found from the analysis that the Microfinance institutions play significance role to the growth and sustainable development of SMEs and also increases the productivity and profitability of small and medium enterprises. Similarly, researchers found providing social intermediation services, such training, consultation and financial management programs, to the SMEs will significantly influences the growth and the survival of the SMEs. Therefore, these findings prove (Fasehun & Bewayo, 2012) argument that the microfinance policy if well implemented could spur entrepreneurship. Bharti and Shylendra(2011) posit microfinance as an important requirement for promoting sustainable micro entrepreneurship. In contrast; results also revealed that inadequate capital and high cost of operations by MFIs are constraints to effective contributions to SMEs development and growth. This finding concurs to the position of several other studies including (Onwubiko, 2009; Oni at al., 2012)

### **4. Conclusion**

This section attempts to provide a clear conclusion and implications to the findings obtained relating to the objective of the study which was to assess the contribution of Microfinance Institutions on entrepreneurship development particularly SMEs in Mogadishu. Based on the findings of our study, it can be concluded the level of access by the SMEs to microfinance services is poor and most SMEs don't acquire capital and other microfinance services from MFIs. It can also be concluded that the SMEs face challenges of accessing loan from MFIs such as collateral, repayment time, and lack of access to the credit. Another conclusion drawn from this study is providing other microfinance programs such as training, consultation and financial management programs to the SMEs significantly contributes to the entrepreneurship development of the SMEs. Finally, this study concludes that the MFIs are evident tools for entrepreneurship development due to the various services they offer and the role they performs towards the development and the growth of the SMEs in Mogadishu.

In view of the findings made and conclusions drawn from the study the following recommendations are provided. First, there is need for the government and other partners to facilitate the accessibility of credit in SMEs to the MFIs

and minimize the collateral conditions. Second, the financial institutions need to put more effort in financing SMEs to contribute their growth and development. Third, the SMEs awareness to the nature and activities should be raised. Finally, this study recommends that guidelines by microfinance institutions to finance SMEs needs to be flexible and microfinance institutions should give technical assistant to the SME would be contributing to the SMEs is to ensure success in the SME sector.

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