

Microfinance and the Development of Small and Medium Enterprises in Mogadishu Somalia

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Abstract

Microfinance provides a wide range of financial services to low-income clients, including self-employed and low earning individuals who are working in informal sectors. The study objective was to establish the effect of microfinance institutions on the development of Small and Medium Enterprise in Somalia. The descriptive design was selected in this study because it would allow the researcher to gather numerical. The data collected from the questionnaire was analyzed, summarized, and interpreted accordingly with the aid of descriptive statistical techniques such as total score and simple percentages. In the process of data analysis, the researchers used SPSS computer package to analyze the data. It was found out that MFIs lending effect to the growth of small and medium enterprise in Somalia and have positive relationship. The study findings show that only a small percentage of the SMEs in Somalia are beneficiaries of the MFI lending services and has an effect on their development. It was also accomplished that most of the requirements as collateral for loan application cannot be afforded by most SMEs, hence opting for cheaper sources of capital hence the low adoption of the loan services by MFIs. Other challenges causing low acceptance of the loans include: the long time taken processing loans, stringent repayment terms and the high transaction costs. MFI loans can be said to lead to the improvement in productivity among the beneficiary SMEs, as well as profitability and the high number of entrepreneurs starting up new ventures.

Keywords: • Micro finance • Development • Small & medium • Challenges faced

Introduction

A World Bank Group [1] study suggests there are between 365-445 million MSMEs in emerging markets: 25-30 million are formal SMEs; 55-70 million are formal micro enterprises; and 285-345 million are informal enterprises. Moving informal SMEs into the formal sector can have considerable advantages for the SME (for example, better access to credit and government services) and to the overall economy (for example, higher tax revenues, better regulation). Also, improving SMEs' access to finance and finding solutions to unlock sources of capital is crucial to enable this potentially dynamic sector to grow and provide jobs.

The regulation and monitoring of microfinance institution declaration of 40/1996 in specially fostered the expansion of microfinance institutions in both rural and urban regions when it was first officially introduced in Ethiopia in 1994–1995. In addition, there are several government policies, legislation, and directives in Ethiopia that have an indirect or direct impact on the growth of the microfinance sector [2].

Ethiopia has seen the emergence of various microfinance organizations in recent years. There are 31 recognized microfinance organizations, and they have vastly different regional distributions, capital structures, and user sizes [3]. Average monthly business sale, profit, income, and shares were the productivity measuring metrics for small businesses. The study measured MSE results based on growth in sales and profits, and lastly head count in terms of number of workers. According to research findings, 89.1%

of respondents reported average monthly sales of less than 30,000 Kenyan shillings, while 10.9% reported monthly basis sales of more than 40,000 shillings. To the highest possible standard, Somalia's study on microfinance and the growth of small and medium-sized businesses in impoverished areas is inadequate. Therefore, the main objective of this study is to learn further about microfinance as well as the implementation of small and medium sized businesses. Microfinance can be a useful strategy for reducing poverty and is crucial in mitigating it, according to Matovu [4]. Microfinance, also known as that of the providing of cash reserves, credit, as well as reimbursements, enables the poor to effectively manage their potential losses, smooth out their usage, progressively build up their capital base, grow their microbusinesses, increase their ability to earn an income, and enjoy a higher standard of living [5]. Salaam Somali Bank and a few numbers of non-governmental organizations, such as Said Foundation started microfinance services target the poor people and their coverage has remained minimal and mostly confined to urban areas.

Therefore, this study investigates the challenges facing microfinance and the development of small and medium enterprises poverty in Mogadishu. This paper examines the role of banks can participate in developing Microfinance and the development of small & medium enterprises in poverty countries those facing lack of knowledge of financing and also investigates challenges facing by them [6].

Literature Review

Microfinance (MF) has developed as a strategy for economic development aimed at helping the low-income segment of a large community (both women and men). The word refers to "providing financial services" (including credit and saving) to "the poor," as defined by the World Bank. Microfinance institutions were created to offer actively poor people access to financial services. NGOs, credit unions, cooperative savings and loans, public banks, commercial banks, and non-bank financial institutions are all examples of microcredit (MFIs) [6]. Limited persons who want to access money to establish or grow an income-generating enterprise can do so through microfinance, which provides access both monetary and nonmonetary services [7]. In order for microbusiness owners and certain other less fortunate clients to be "bankable," or to be able to pay back principal and interest on time and also create savings, financial services

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must be customized to meet their needs [8]. Most MFIs using the integrative approach offer entrepreneurship development activities, microenterprises, or nonfinancial services. The non-financial MFI services include subsector analyses and interventions, business skills, marketing and technology services, and manufacturing training [6]. Services for entrepreneurship development can be divided into two groups. The first one is enterprise formation, which is the provision of training to individuals seeking to develop abilities in a particular industry, such as weaving, as well as individuals seeking to launch their own firm. The business transformation program, which offers technical assistance, training, and technology to help existing SMEs grow in terms of production and marketing, is the second category of enterprise development service offered to its clients.

Prior study of independent and dependent variables

Microfinance banks are organizations created to offer financial services to the economically engaged poor. Non-governmental organizations (NGOs), savings and loan cooperatives, credit unions, government banks, commercial banks, or quasi banking institutions can all be banks operating (MFIs) [6]. Low-income individuals who want to access money to establish or develop an income-generating activity can do so through microfinance. Microfinance also provides access to nonfinancial services [7]. Microentrepreneurs and some other less fortunate clients can be bankable, which means they can pay back principal and interest on time and also save money, if financial services are adapted to their requirements. This is how microfinance got its start [8]. Financial products are not required in order to use entrepreneurship development services, and these services are not provided for free. Since the MFI will not be able to cover the whole cost of delivering the services, the government or another party must subsidize these fees. Although the company development services may be extremely valuable to firms, the impact and knowledge acquired cannot be quantified because they often do not contain any quantifiable goods. Businesses that receive credit alone and those that receive credit packages plus integrated company development services have been found to differ very little, if at all [6]. The microcredit industry in Pakistan faces a series of obstacles as well as opportunities, according to Muhammad [9]. These challenges include inadequate regulations, heightened competition, creative and differentiated products, profit growth, stability, and limited managerial capacity of microfinance institutions (MFIs). On the other hand, Pakistan's tremendous rise in poverty and other prospects are fostering this industry's expansion and providing a sizable market for microfinance. Based on this, the industry offers a variety of options, including: promoting economic growth, empowering women, expanding volume, availability, and reach, and economies of scope.

Methodology

Descriptive method, which can be either quantitative or qualitative, was used to perform this study. It can describe categories of information like gender or patterns of interaction when using technology in a group setting. It can also require collections of quantitative information that can be tabulated along a continuum in numerical form, such as test scores or the number of times a person chooses to use a specific feature of a multimedia program. When conducting descriptive research, data about events are gathered, organized, tabulated, illustrated, and described. Descriptive research's primary objective is to describe or analyze the current situation in Mogadishu's Micro Finance setup. Additionally, the survey was used throughout the study's primary data collection phase. In some research, the sample size may be sufficient to justify including every participant. Research, however, can involve a sizable population that cannot all be studied. A sample of the population refers to the segment of the population under study [10]. A sample in this study is, therefore, a smaller group of elements drawn through a definite procedure from an accessible population. The sample size for this study consists of 60 respondents drawn from twenty small and medium enterprises operating in Mogadishu. Where, 40 respondents will be partners; 15 employees, especially management and 5 experts, to determine the best sample size for the population. The size of the sample that has to be gathered will depend on factors such as the level of confidence necessary in the results, the level of

precision needed, and the expected categories for analyses. Statistical studies typically call for a minimum sample size of 30 [11].

Results and Discussion

We discussed this section the result of the data that collected and analyses to understand in terms of demographic, data presentation and analysis.

Descriptive analysis

Demographic data: This part of the study was discussed the demographic characteristics of participants. The target respondents were 60 respondents drawn from twenty small and medium enterprises operating in Mogadishu. Where, 40 respondents will be partners; 15 employees, especially management and 5 experts. Therefore, questions were asked about the gender, age, marital status, educational level and how long have they in business.

The findings stated in the Table 1 indicates that 29, which are 48.3% of respondents were females and 31 which is 51.7% were males. This result implies that both male and female respondents use macro finance.

This Table 2 presents the majority of the respondents are married which forms 65.0 percentages of total respondent while the single persons are 35.0 percentages of total respondents. Therefore, it implies that more married respondents use Micro finance rather than unmarried respondents.

The results showed in Table 3 respondents within the age of 20-30 years were 24 respondents or 40.0%. Therefore, the majority of my respondent is aged to 20-30. 31-40 years group representing 28.3% or 17 of the respondents. Followed by, 18 respondents representing 30.0 per cent were between the ages of 41 to 50 years. While, those aged 50 years and above were 1 representing 1.7 per cent of the respondents.

The Table 4 shows the majority of the respondents were bachelor degree

Table 1. Gender.

Gender	Frequency	Percent
Male	31	51.7%
Female	29	48.3%
Total	60	100.0%

Table 2. Marital status.

Marital Status	Frequency	Percent
Married	39	65.0%
Unmarried	21	35.0%
Total	60	100.0%

Table 3. Age.

Age	Frequency	Percent
20-30 Years	24	40.0%
31-40 Years	17	28.3%
41-50 Years	18	30.0%
50 and above	1	1.7%
Total	60	100.0%

Table 4. Educational level.

Educational Level	Frequency	Percent
No Formal education	17	28.3%
Primary	5	8.3%
Secondary	13	21.7%
Bachelor Degree	20	33.3%
Master Degree	5	8.3%
Total	60	100.0%

which are 33.3% of total respondent. While no formal education respondents were 28.3% of total respondent followed by Secondary were 21.7% of total respondent while Master respondents were 8.3% and lastly, primary level respondents were also 8.3% of the respondents.

From the Table 5 it shows that, 33.3 percent of the respondents (SMEs) in their operations 3 to 5 years, 30 percent of the respondents were in 1 to 3 years in their business operation. While, 28.3 percent were 6 to 10 years and finally 8.3% were 11 and above years in the business. This shows that, most of the SMEs sampled for the study were established in the 21st century, thus early and late 2010 and have the requisite experience in terms of their dealing with Microfinance Institutions.

Data presentation and analysis

The role of microfinance institution in the development of SMEs in Mogadishu Somalia: The primary goal of this study was to determine and confirm the function of MFIs in the growth of SMEs in Mogadishu, Somalia. The respondents were asked to write the number that best suited and described their perceptions in order to indicate how much they agreed and disagreed with each of the questionnaire's items. Additionally, the respondents were questioned on a number of topics related to the development of SMEs and the role of microfinance institutions in order to ascertain their ideas and opinions in order to accomplish and achieve that goal. The Table 5 provides a summary of the findings [6].

The Table 6 presents the summary of respondent's response on the role of MFIs on development of SMEs on some selected banks in Mogadishu city. And by analyzing it, it scored high overall mean, which is (4.0025) and high overall standard deviation, which is (1.1706). Therefore, this result indicates that development of SMEs is very important to the banks and customers because if the MFIs does not make any development to SMEs the business do not make any progress. The first statement "MFIs services have helped my business to increase productivity or output" scored high mean of 4.22 and standard deviation of 1.223. Nevertheless, this indicates that the most of MFIs helped many businesses to increase their productivity or output.

The second statement "MFIs services have helped my business to increase savings and have reinvested in my business" scored a high mean of

3.93 and standard deviation of 1.163. However, these states and shows that the most of MFIs have helped many businesses to save their excess cash in order to reinvest the business in order to growth.

The third statement "MFIs services have helped my business to increase incomes from the business" scored high mean of 4.18 and standard deviation of 0.965. This highlights that MFIs helped many businesses to increase their income from the business growth because when the income of person increase than the business would also grow.

The fourth statement "MFIs services have given me new skills and techniques to manage my business." Scored high mean of 4.00 and standard deviation of 1.179. This highlights that MFIs gave their customers to new skills and techniques in order to manage their business properly manner. The fifth statement "MFIs have increased household savings Perception and income in my business." Scored high mean of 3.98 and standard deviation of 1.228. This shows that MFIs have increased household savings perception and income of the business.

The Sixth statement "MFIs have reduced household poverty and vulnerability level" scored high mean of 4.12 and standard deviation of 0.976. This denotes that MFIs have reduced the poverty of household also they reduced the level of vulnerability. The Seventh statement "The availability of MFIs contributed to the enhancement of my managerial skill, financial management skill" scored high mean of 3.97 and standard deviation of 1.134. This states that most of the respondents said that MFIs contributed to the development of the customers skills both managerially and financially. The Eighth statement "Existence of MFIs affected my business growth" scored high mean of 3.62 and standard deviation of 1.497. This explores that the existence of MFIs affected the growth of the respondent's business in effectively and efficiently.

The challenges faced by small and medium enterprises in microfinance: The second objective of this study was to determine the challenges faced by small and medium enterprise in microfinance in Mogadishu city. To achieve this objective, the respondents were requested to indicate to what extent they agree or disagree with each statement given in the questionnaire by writing the number that best suits and describes their perceptions. The results have been summarized in the following Table 7.

The Table 7 summarizes the respondent's response on the challenges faced small and medium enterprises in microfinance which resulted high overall mean average (4.04) as well as high standard deviation (0.9713). This tells us that these challenges have a significant on the small and medium enterprises when they are using microfinance. Moreover, this emphasizes that the challenges faced to these enterprises needs skill and knowledge for both microfinance institutions and the customers.

The first statement "Lack of adequate formal education" scored a high mean of 3.82 and standard deviation of 1.372. However, these states and shows that the benefits received from formal education has a positive effect on the managing business effectively and efficiently, because customers that have knowledge can easily run the business in properly.

The second statement "Short loan repayment period" scored a high mean of 4.17 and standard deviation of 1.011. Furthermore, these exhibits or explores that all respondents have complaint with short loan repayment period. Because customer is always worried about how they repaid back the

Table 5. How long have you been in this business?

How long have you been in this Business	Frequency	Percent
1-3 Years	18	30.00%
3-5 Years	20	33.30%
6-10 Years	17	28.30%
11 and above	5	8.30%
Total	60	100%

Table 6. The role of microfinance institution in the development of SMEs

Questions	Mean	Std. Deviation
MFIs services have helped my business to increase productivity or output.	4.22	1.223
MFIs services have helped my business to increase savings and have reinvested in my business.	3.93	1.163
MFIs services have helped my business to increase incomes from the business.	4.18	0.965
MFIs services have given me new skills and techniques to manage my business.	4	1.179
MFIs have increased household savings Perception and income in my business.	3.98	1.228
MFIs have reduced household poverty and vulnerability level.	4.12	0.976
The availability of MFIs contributed to the enhancement of my managerial skill, financial management skill.	3.97	1.134
Existence of MFIs affected my business growth.	3.62	1.497
Overall Mean	4.0025	1.1706

Table 7. The challenges faced by small and medium enterprises in microfinance

Questions	Mean	Std. Deviation
Lack of adequate formal education	3.82	1.372
Short loan repayment period	4.17	1.011
Exchange rate fluctuation	3.97	.938
Lack of adequate capital	3.93	1.103
Poor record keeping	3.70	1.331
High inflation in the market	4.17	1.044
Lack of guarantor	4.52	3.895
Overall Mean	4.04	0.9713

loan in time in order to get another chance. The third statement "Exchange rate fluctuation" scored a mean of 3.97 and standard deviation of 0.938. Hence, this denotes that the exchange rate fluctuations also is one of the challenges associated with microfinance loans, because when customer take loan from MFIs and the exchange rate fluctuates sometimes this would cause a bankruptcy. The fourth statement "Lack of adequate capital" scored a high mean of 3.93 and standard deviation of 1.103. However, this implies that some customer complains lack of adequate capital. This mean that they cannot bear when they face some financial implication because they don't have any capital in order to compensate their losses. The fifth statement "Poor record keeping" scored a high mean of 3.70 and standard deviation of 1.331. However, this indicates that some customers are suffer for poor record keeping because they are ignorant or not have adequate education, The sixth statement "High inflation in the market" scored a high mean of 4.17 and standard deviation of 1.044. However, this explores that most of the customer are suffer high inflation in the market because in Somalia the government has not the power to affect the market prices or do not have any intervention in the market and this caused that high inflation.

The seventh statement "Lack of guarantor" scored a very high mean of 4.52 and standard deviation of 3.987. However, this implies that all customers has challenges associated with lack of guarantor or sponsor, because when customers want to take loan from the MFIs guarantor is one of the primary conditions.

Conclusion

Microfinance organizations play a crucial role in the growth of SMEs, especially for those without access to capital to reinvest. These microfinance organizations help SMEs in the fields of production, trade, service delivery, and small-scale industry. Service-related activities make up the majority of SME activities, in part due to the simplicity and lack of cash and advanced technology required to launch such enterprises.

The framework that microfinance services provide for SME operators to receive transfers through MFIs, properly utilize loans, and employ general company management strategies goes beyond simply supplying funds. Small and medium-sized businesses had to meet one or more of the following requirements to obtain capital from MFIs: they had to have bank accounts, be located in the bank's service region, have saved money there for at least six months, and not have a history of defaulting on loans. However, these requirements significantly impact SMEs by delaying the release of loans to recipients to conduct their commercial operations.

All things considered, MFIs must do more to support SMEs, including timely loan disbursements, larger loan amounts, lenient loan terms, and lower interest rates. Microfinance organizations also need to step up their training initiatives so that SME operators may improve their managerial capabilities and succeed in a variety of business ventures. The provision of financing to people deemed "unbackable" by formal sector banks is a crucial function of microfinance institutions, but the contribution of these SMEs to national development is tremendous and should receive the necessary attention from both the government and civil society.

Limitations of the Research

According to Best and Khan [8], limitations are those conditions beyond the control of the researcher that will place limits on the conclusions of the study and their application to other situations.

The limitations of this study are:

1. The method of questionnaire setting
2. The scope of the study will be limited to only 90 potential respondents.
3. As well as limitation of not clear population.
4. And additional limitation of this study is the investigating only the

procedure while better than to explore the objective, correlation and relationship.

Recommendations

- i) Trust building among the customers should be a major concern for the service providers while improving the usefulness of the system. In order to enhance trust in internet banking, trust-creating activities must be continuously pursued.
- ii) Bank managers should develop a system that provides up to date and relevant financial information with good user interface consistency in order to enhance trust.
- iii) Changing consumer attitudes towards electronic banking should be put into consideration. Bank managers should place more emphasis on the awareness of internet banking adoption while educating individual customers on its existence and benefits. User awareness of electronic banking services can be increased through putting in place community-based workshops and through various social networks 60 and channels, such as word of mouth and informal seminars before introduction of new technology.
- iv) Commercial banks should make the internet banking interface for the customer more attractive and easier to navigate in order to increase the adoption rate of electronic banking.

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